ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 170 Number 4842 | New York, N. Y., Thursday, September 29, 1949 | Price 30 Cents a Copy

Switzerland's Appraisal of Devaluation

By A. WILFRED MAY

Mr. May reports favorable Swiss opinion of devaluation, but general view regards it as only first step to restoration of currency convertibility. In Rome dispatch, he cites contradictory steps taken by Continental countries and asserts trend is toward economic interventionism without realizing it. Points out basic difference from British Labor's doctrinaire Socialism.

A. Wilfred May

BASLE, SWITZERLAND, Sept. 28—In curing disparities, the current devaluation is a very important first step in the right direction, is the considered opinion of important observers residing in this oasis of monetary strength, including officials of the Bank for International Settlements. But there must be prompt further steps of genuine planning, along lines of Belgium's techniques, leading to general abrogation of exchange controls. It is believed currency convertibility is possible in time after restoring confidence and increasing sterling reserves by

(Continued on page 35)

Will Devaluation Close Britain's Dollar Gap?

By HERBERT M. BRATTER*

Mr. Bratter reviews background of British sterling devaluation and analyzes probable effects on British economy. Holds dollar-earning capacity of Britain's devaluation is not likely to permanently improve, and wages and prices in Britain are likely to rise. Cites London "Economist" estimate of required 2½ times increase of United Kingdom exports to dollar area to fully close dollar gap, as well as this journal's view devaluation is not solution to Europe's most urgent problem—the export deficit to dollar area. Points out U. S. sterling imports are for raw materials having inelastic demand.

The supposed purpose of Britain's devaluation of sterling is to bring about an increase in exports and a decrease in imports, the combined effect of which will be to enable the country to pay its own way in its trade with the dollar area. While the devaluation of sterling will have a tendency to bring about that desirable result, we should do well to keep our fingers crossed for quite some time yet. It will be months before the main effects can be appraised with any assurance. In the first place, what is "England's dollar shortage"? It is the shortage of the entire sterling area, the whole Commonwealth of politically affiliated nations as well as others which maintain close financial

Herbert M. Bratter

(Continued on page 18)

*A statement by Mr. Bratter prepared for American University television broadcast over Station WMAL-TV in Washington D. C., Sept. 27, 1949, in a forum discussion, "Will the Devaluation of the Pound End England's Dollar Shortage?"

Near-Term Business Prospects

By SUMNER H. SLICHTER*
Lamont University Professor, Harvard University

Maintaining, despite even course of business, there is a recession, Dr. Slichter points to decline of inventories and reduced industrial production. Foresees no resumption of postwar boom, and holds some time within next five years nation may go through difficult readjustment due to drop in demand for durable goods. Says immediate effects of currency devaluations on U. S. will be limited and concerned largely with shifts in world trade and reduced U. S. exports. Discounts effects of steel or coal strike and concludes immediate outlook is for business to continue at present levels of production and employment.

I

For virtually a year the country has been going through a recession. It has been an unusual recession. Retail sales, for example, have shown virtually no change, expenditures on plant and equipment have declined less than 5%, expenditures on construction have been slightly larger than last year, government purchases of goods and services are running more than 10% above last year, the sales of automobiles are at record-breaking levels. Even at the end of June, over 300 commodities were subject to export licenses. These are not the usual characteristics of a recession. Nevertheless, there can be no doubt that the country

Prof. S. H. Slichter

(Continued on page 20)

*An address by Prof. Slichter before the American Meat Institute, New York City, Sept. 21, 1949.

EDITORIAL

As We See It

Collective Devaluation vs. Competitive Devaluation

For a long while past Britain and many other countries have been complaining of a "shortage of dollars." They have been saying that it was impossible for them to get their hands on enough dollars to pay for the goods and services they had to have from this country. They have now sought relief in measures which will require them to pay more — in most instances, about 44% more — of their own currencies and, assuming no price changes, of their own goods, for each dollar they acquire in the future. For the competitive devaluation of the 'Thirties, there has now been substituted collective devaluation.

Strangest of all, at least to the detached philosopher seated on Olympus, is the fact that all this has been done with the blessings of, not to say under strong and persistent pressure from, the Government of the United States and the two international financial institutions brought forth to promote, if not to establish, monetary stability! Furthermore, since nearly all of this long list

(Continued on page 26)

Taxation Impact on Public Utilities

By CHARLES E. EBLE*

Comptroller, Consolidated Edison Co. of New York, Inc.

Mr. Eble traces effects of current taxation in creating scarcity of equity capital and in impeding business expansion. Condemns double taxation of dividends and suggests methods of its elimination. Describes tax discriminations against public utilities and administrative burdens placed upon them. Condemns electrical energy and transportation taxes as imposts on human necessities.

There has been a great deal of discussion and study devoted to the subject concerning the general effects of taxation. It is a coincidence that I have been working with a committee of another association which has had under consideration this very subject in its particular relation to utility financing.

Charles E. Eble

I am dividing the subject matter of our discussion today into four general fields.

(1) In the financial field much has been said about the scarcity of equity capital and the underlying reasons therefor. How much of this scarcity is due to the impact of taxation; and, the extent to which public utilities may feel the brunt of this condition more than other industries is one of the points that we should consider today.

(2) Another field which we can discuss to advantage has to do with the meaning of so-called "double taxation" of corporations. What is this subject all about and what are its pecularities in the utility field?

(3) Perhaps the most important tax effect, however, to utilities has to do with equality of taxation or rather the lack of equality. Certainly, any discussion in the utility field having to do with the impact of taxation must include this fruitful field for study.

(4) Last but not least, one cannot lose sight of the unwholesome, uneconomic and discriminatory taxes which are imposed on utilities and their customers.

With these four fields in mind, let us proceed with our discussion.

Scarcity of Equity Capital

The volume of plant construction for industry in general during the postwar period has been unprecedented. American business spent over $16 billion for plant and equipment in 1947 and over $19 billion during 1948. The Department of Commerce estimate for the 1949 volume of construction is $18½ billion. This expansion has been financed to a large extent through retained earnings (including depreciation, depletion, and other income reservations); to a lesser degree by the sale of debt securities (including debentures and bank loans); but only to a minor extent through the sale of preferred and common stock. Taking the year 1948 alone, only 4.7% was from stock issues, additional debt furnished 24.7% while retained earnings, etc., furnished 70.6%. For reference, a chart has been prepared, Exhibit "A," showing the total requirements for plant construction for all industries, except agriculture, for the years 1939 to 1948 together with the sources from which the money was obtained. This chart also shows similar figures for the gas and electric industries alone.

There are several differences between the utility results and those of industry in general that are of interest. For example, most of the money requirements for these utilities were obtained through debt financing rather than from retained earnings, particularly in recent years. In 1939, the utilities financed 91% plus of their requirements from retained earnings while this dropped to a low of 21.5% in 1948. During the same period debt financing rose from 7.1% to a high of 64.4%. Of course the unparalleled construction expansion program in recent years within the utility industry required the obtainment of additional funds from sources other than internal operations. The financing of capital requirements through the flotation of common and preferred stocks uniformly appears low both for public utilities and general business. However, the trend in the public utility field shows increasingly larger financing from this source during the past several years.

The small amount of stock sales or so-called scarcity of equity capital has been a matter of concern to business leaders generally who urge the desirability of raising more of capital requirements through equity financing. All agree that additional indebtedness incurred to finance expansion can be inherently dangerous. The memories of the great depression are too recent, with its train of bankruptcy, foreclosure and receivership, to let any one forget that too much debt may well be the road to ruin.

Reducing individual income taxes may appear to be one of the obvious solutions for increasing the attractiveness of equity securities. But the large and pressing needs of the Federal Government under its present concept of administration preclude substantial tax reduction to individuals without alternative sources of revenue. To the present time, to my knowledge, no acceptable substitutes for the present taxes on individual income have been developed. For this reason the incentive to increase stock ownership must be within the present framework of corporate and individual taxes, and as a further condition, apparently there can be no reduction in the total amount of revenue raised.

Two general propositions directed toward the lack of equity financing have been widely discussed. One is based on the theory advanced that the scarcity of equity financing was due largely to the lack of capital formation which in turn was caused by the impact of the heavy personal income tax rates in the higher brackets.

I do not wish to unduly burden you with figures, but in order to emphasize this point, let me give you some idea as to the extent to which potential savings of individuals in recent years reverted to tax collector, Uncle Sam, by making a comparison between the years 1929 and 1949 (after application of community property principle).

Annual Gross Income (Married Person)	Remainder After Taxes — 1929 —		— 1949 —	
$5,000	$4,977	--	$4,370	87%
10,000	9,865	99%	8,400	84%
50,000	45,355	91%	32,800	66%
100,000	84,395	84%	53,600	54%
500,000	384,435	77%	116,000	23%

It has been estimated that on annual incomes above $5,000, savings of 30% to 50% were realized in the prewar period, whereas today income taxes take $8 billion out of a gross income of $29 billion for persons whose annual income exceeds $5,000 and that about 10% remains for possible savings. The decline in the ability of the high income groups to save and use such savings in part, as heretofore, to invest in equity securities is obviously the result of large income personal taxes.

Estate and gift taxes also have an effect on the disposition of savings in that past accumulated savings were bequeathed intact to succeeding beneficiaries, whereas with the present estate taxes ranging upward to 77% there is little

(Continued on page 28)

*An address by Mr. Eble before the Utility Industry Conference at the Annual Meeting of the Controller's Institute, San Francisco, Calif., Sept. 28, 1949.

INDEX

Articles and News

Regular Features

* See article on cover page.

Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office

WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 8, N. Y.
REctor 2-9570 to 9576

HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager

Thursday, September 29, 1949

Every Thursday (general news and advertising issue) and every Monday (complete statistical issue — market quotation records, corporation news, bank clearings, state and city news, etc.).

Other Offices: 135 S. La Salle St., Chicago 3, Ill. (Telephone: State 0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 8, 1879.

Subscription Rates

Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union, $35.00 per year; in Dominion of Canada, $38.00 per year. Other Countries, $42.00 per year.

Other Publications

Bank and Quotation Record — Monthly, $25.00 per year. (Foreign postage extra.)
Monthly Earnings Record — Monthly, $25.00 per year. (Foreign postage extra.)

Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

Truman Extols "Welfare State"

In broadcast celebrating Democratic Women's Day, he contends Constitution, in its general welfare clause, laid basis for his "Fair Deal" policies, and opponents are 160 years behind the times. Defends housing and educational aid measures.

President Harry S. Truman, in a radio broadcast delivered in honor of "Democratic Women's Day," defended his "Fair Deal" welfare policies, comprised in his social legislation proposals, as being in line with the provisions and purposes of the Constitution and he condemned opponents to his political philosophy as being "160 years behind the times."

The text of the broadcast follows:

President Truman

I am glad to speak to the women of the United States on Democratic Women's Day.

As President, I know that women have an interest in the affairs of government that goes far beyond job holding or partisanship. I know that women are not misled by political slogans. They have learned that the real issues in political activity are the well-being of the country and the future of their families. Women look beneath the labels to see the facts.

It is my firm conviction that the Democratic party offers more for the welfare of the country—than any other party or political group.

The Democratic party has a program.

It is a program of practical measures. It is not a blueprint imposed from on high by a little group of theorists. Neither is it a set of platitudes concocted by a group of corporation lawyers in a smoke-filled room. Our program is an expression of the desires of the people.

The Democratic party does not dodge issues or seek to gloss them over. We state them boldly. We propose concrete and practical action to solve them.

A Grass-Roots Program

Our program consists of measures which have come up from the grass-roots—of ideas and proposals that have been discussed and hammered out among unions, in farm groups, in city councils, in country boards and in state legislatures. Our program is as American as the soil we walk on.

It is a program unshakably founded on the principle that the power of government should be used to promote the general welfare. It is a program based upon the experience of the Democratic party in using the power of government to establish actual conditions in which the people can achieve a better life for themselves and their children. It is a program of what should be done and what our experience tells us can be done.

We have just heard, from the ladies present here, the viewpoints of the farmer, the worker and the business man. It is interesting to see how these three points of view fit together. Each of these groups depends on the others. Farmers cannot be prosperous unless industrial workers have good wages and steady employment so they can buy the products that farmers raise. Workers cannot be prosperous unless farmers have good incomes and can buy the things that industrial workers make. Business men cannot be prosperous unless both farmers and workers have the money to buy the things they sell.

All groups in our nation depend on one another. That is what the term "general welfare" means. The general welfare is the sum total of the welfare of all the groups in our country.

Cites Constitution

The Constitution was established to "promote the general welfare." Those are the words of its preamble. And that is the duty of our government.

The Democratic party proposes to see that the Federal Government carries out this constitutional responsibility. We will do so in spite of the outcries of certain people who say there is something alien or dangerous in the idea of a government that works for the welfare of all our citizens. Those people are just about 160 years behind the times. They want us to forget the language of the Constitution.

We have some serious problems in this country today. If we are to continue to promote the general welfare, we must devise modern methods to solve these modern problems.

One of our serious problems today is the fact that there are not enough good houses for our rapidly growing population. The Democratic party is pledged to work for good housing. The 81st Congress has just passed a public-housing bill to provide assistance in building homes for low-income groups. The 81st Congress and the Administration are working out solutions for the home-building problems of other groups. Since the 1948 election, and in spite of determined opposition, we have made great progress in the field of housing. We are going to keep right on making progress.

We are just as interested in good schools as we are in good houses. I think all of you know that many boys and girls are not getting the right kind of schooling. There are not enough teachers, and there are not enough school buildings. Our schools are getting steadily more crowded. Women who serve on school boards and women who teach know that in many parts of the country better schools cannot be obtained unless there is financial assistance from the Federal Government.

This Administration has pledged

(Continued on page 35)

Some Rules and Other Advice In Security Salesmanship

By KELSO SUTTON*

In second salesmanship talk, Mr. Sutton discusses methods of planning day's work. Warns against getting into traditional rut and points out there is a ratio of sales to calls, if properly planned. Advises against being a "long-winder" and urges politeness and care in solicitation. Lists among other "don'ts," don't argue, don't bluff, don't talk to one customer about another, and don't misrepresent yourself. Stresses value of efficient and intelligent counsel in stock salesmanship and cautions against "overselling." Advocates indirect presentation to client.

We are going to continue with our discussion of General Selling Principles today. The next one to be taken up is "Covering all your ground." When you plan your week's work, or your day's work, be sure that you cover every part of your potential market.

Kelso Sutton

A lot of salesmen get stuck in ruts after they have been working for a while. They go up the same old streets, they hit the same old towns, or they hit the same accounts continually and in that way they fail to cover their complete market. One of your important factors in obtaining business is the number of calls that you make, and where you make them.

Now, you will remember that we talked, last week, about a fellow making 20 calls a day and that totaled up to 5,000 calls a year. Probably, each one of you has a different set of circumstances as far as the number of calls is concerned but at some time you ought to sit down and ask yourself what would be the correct number of contacts for you to make per day. Set yourself a quota to make that many.

There is a law of averages that applies to selling: Even if a man were not too good a salesman, if he made enough calls, consistently, provided he is selling anything that the market wants, the law of averages is going to bring him a certain amount of business.

In any salesman's work there is a ratio of sales to calls. Of course, the effectiveness of your selling work during a solicitation determines how favorable that ratio is to you. But the first important point for any salesman to make sure of is that he is making enough calls. There is another consideration in the matter of planning the number of calls and covering your market: A lot of fellows like to make their calls in offices where there is a fine rug on the floor, where there is plush furniture about, and they are reluctant to get off the beaten track and go down the side streets trying to dig up some new business of their own where the circumstances may not be as pleasant.

Today, there are a number of business establishments that are not on Fifth Avenue or Wall Street or Lower Broadway, although they represent attractive prospects. In the first place, a lot of the really good companies are not able to get the office space where they want it. In the second place, there are other companies that are making plenty of money, and individuals working for those companies, certainly potential investors, who are located in the by-ways of the city.

There was a story published a while ago about one of the big investment houses in this section that received a letter from some dismal location. They sent a representative to call and he had to walk up about four floors in the tenement district. He came away with a sale of many thousands of dollars in investments, and if you would look at the house you would never believe the tenants had any money to invest.

The point is that you should not allow yourself to get stuck in any kind of a traditional rut in your business when you say to yourself, "Where am I going to go to make calls."

Another general point all salesmen should remember is that selling is not a military campaign. There are so many sales managers who, when they talk to their salesmen, say, "All right, boys, let's get out there on the old firing line today and mow them down!" Well, who are you going to mow down, your customers? Are you going to shoot at them and destroy them? You certainly are, with that approach. It is an old-fashioned attitude to use expressions such as "firing line" and "target," and that sort of thing, when you are thinking about your customers. That is not the correct way to regard the people with whom you wish to do business.

You are bringing a service to your customers and you wish to be their friend.

I have a few negative statements to make. In this line of endeavor there are certain things that should not be done, and here are a few of them. They are common sense rules:

Don't Be a "Long-Winder"

The first one that every salesman should observe is not to be long-winded. There are a lot of them within the ranks of selling, but they don't get a lot of business. A lot of people do not know how to develop their terminal facility. They don't know when to quit.

In the first place, if you talk too much you wear your customer down. You may wear him down to the point where he doesn't have the energy left to take part in the conversation, to take his own part, to express his interest in what you have to sell. There is a depletion of physical energy on his part by your talking at him so fast and so long.

That is one reason that you shouldn't talk too long. Another reason is that if you do all the talking, when is he going to say, "Yes, I'll buy it!" A lot of salesmen keep talking so fast and so long that they don't give the fellow a chance to say that he will buy what you are trying to sell. And a lot of salesmen who are long-winded do a lot of talking but they don't say much.

There is a distinction between just talking and actually saying something that has some bearing on the sales solicitation, so just check yourselves once in a while as far as the volume of your verbal delivery is concerned and always ask yourself, "Is what I am saying pertinent to the solicitation that I'm making?"

There is such a thing as repressing people. We don't like to feel repression against us. Mothers repress their children by continually saying don't do this, or you musn't do that, or put that down, and don't play with that, and very often adults who have been subjected to a lot of that sort of repression when they were young have a hangover and they particularly do not like to be repressed by people in their business or social life.

Now, if a salesman goes in and talks too hard, too fast, and too long to a person he might bring up within that person's mind this feeling of repression and what that man is going to do is to get rid of you just as fast as he can.

Remember that the function of selling works two ways: the salesman contributes something, and the buyer contributes something. The buyer has a definite role to take in the transaction and you must give him his opportunity to take his part. If you don't it is all one-sided and you are not going to make out very well in your selling work.

"What to Say"

The selection of what you are to say is also very important. Salesmen who try to sell refrigerators to women by discussing the technical points of refrigeration may not get anywhere at all, but the salesman who slams the door of the refrigerator and says, "Isn't that a lovely door, you see how nicely it closes," and "Don't you like the nice finish of this refrigerator," the salesmen who talk about simple things of that nature to such customers are the ones who will get the business.

Every salesman must decide how technical he is going to make his solicitation, and fit it into the knowledge level of the person he is talking with. One of the most successful automobile salesmen is the man who never lifts up the hood of the automobile. He talks about the finish of the paint, and he talks about the upholstery and the dashboard, and points that are very superficial, as far as the mechanics of the automobile are concerned, but they are the things that the general buying public is attracted by, so don't bog down your customers with a lot of technical talk about securities that they can't follow and that they are not interested in, anyway.

"Don't Be Impolite"

Perhaps this next "don't" is one that requires no mention here but we'll mention it, anyway: Don't be impolite. Now, it is true that

(Continued on page 22)

*Stenographic report of lecture given by Mr. Sutton, second in series on Investment Salesmanship sponsored by the Investment Association of New York, New York City, Sept. 22, 1949.

Erasing Mysteries of Trust Services

By EDWARD M. HEFFERNAN

Trust Officer, Ann Arbor Trust Company
Ann Arbor, Michigan

Midwest trust officer enumerates and clarifies the many services corporate trusteeship offers public. Says trust companies have come to realize more and more their obligations to their communities. Stresses value of estate planning and living trusts and defends common trust funds.

The term, "Trust Services," gradually is coming to be understood and appreciated by a great number of people. In most sections of the country trustmen have done much to bring to the residents of their communities the advantages to be obtained from the use of trust arrangements. The Life Insurance companies and Bar Associations, in many instances, also have contributed immensely in informing their customers and clients, respectively, of these advantages. And more and more people are learning from their own experiences, and those of relatives and friends, how much time, money, effort, worry and grief can be saved through having good estate plans involving the services of a corporate executor and trustee.

Ed. M. Heffernan

The principles of trusteeship, as exemplified prominently by corporate institutions, have demonstrated how well an estate may be preserved for a widow and children; how the education of children can be provided; how security in old age can be assured; and how any type of asset can be safeguarded and protected through continuous and experienced supervision. "Trust Services" also have been popularized through the increasing number of appointments which banks and trust companies are receiving as executor under wills. Their mature, sober, impartial and human administration of estates, large and small, is receiving recognition by people across the nation and, as the results become better known, there is bound to be a greater demand for this phase of "Trust Services." And I am not referring to any one group or class. I mean literally every person in this country, as everyone—rich or poor, black or white, young or old—has need for one or more of the services of a trust institution. Just think of the many services which we have to offer:

- As Estate Planner
- As Executor under a Will
- As Administrator of estates where there is no Will
- As Trustee under a Will and Life Insurance Trusts
- As Trustee under Personal Living Trusts
- As Agent and Custodian of investment holdings
- As Guardian for the estates of minors
- As Conservator of estates of incompetent persons
- As Escrow Agent
- As Fiscal Agents for corporations
- As Trustee to secure bond issues
- As Stock Transfer Agent and Registrar for stocks and bonds
- As Dividend Disbursing Agent and as Paying Agent
- Complete Real Estate and Mortgage Services
- Safe Deposit Boxes

The basis of all "Trust Services" is investment. It is on this basis that we must sell most of our services. When talking with most prospective customers, trustmen have found that the investment phase is of utmost importance to them. People want to know what they can expect of us in the handling of their own funds, regardless of our capacity. Until we can prove to the public that our investment results will meet with their satisfaction, it is quite likely that "Trust Services" are going to lag in popularity.

Obligations to Community

During the past decade, particularly, trust companies and banks with trust powers have come to realize more and more their obligations to their communities. After all, these financial institutions are quasi-public, as all of them are chartered by Federal or State governments and are supposed to be rendering vital and necessary services to the residents of communities in which they are located. Otherwise these governmental bodies would not have approved, nor would they continue to condone, their existence. They exist only for the benefit and use of all of the people—that is their purpose of being in operation today. If this is true, why are they not better patronized? Why is it that people still encounter such great losses of their property, that estates are dissipated, that they remain ignorant of these "Trust Services" which are available to them? In part, it is the fault of the trustmen themselves. They knew, as did the governmental bodies that their services were a "must" to the people of the country. But for many years they neglected to inform the people, in an intelligent and comprehensive manner, what they actually could do for them. They took too much for granted.

Along came the boom of the '20s, followed by the historical "bust" of 1929. Even our youngest generation is well informed about that era because politicians of every ilk continue to use it for their own selfish ends. Nevertheless that period served to weed out the weak and marginal operator in the trust field, the same as it did in every other industry and profession. Laws were passed subsequently by our State and Federal Legislatures which strengthened every part of our economic society—the Federal Deposit Insurance Corporation covering bank deposits, the Public Utility Holding Company Act covering the operation and financing of all types of utility companies, the Wagner Act regulating both capital and labor, the Federal Investment Act regulating investment companies, the Anti-Branch Banking Act in Michigan prohibiting extensive establishment of branches by larger banks, and the Federal Securities Act which regulated the commodity and stock exchanges throughout the country and gave us the first semblance of standardization in investments. All of these regulations, as well as many others, tended to benefit trust institutions. In fact, we all learned much from the 1929 era. But isn't that what has made our country the strongest in the world today? As an aftermath of that period, banks and trust companies started programs to educate the public about their business. Yet even today there still are prejudiced, ignorant and narrow-minded people—plus the usual number of cranks and crackpots—who do not and probably never will appreciate the

(Continued on page 31)

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

For the country as a whole, over-all industrial output the past week continued the rise of recent weeks, but at the same time it held moderately under the high level of the corresponding period one year ago.

Reports for the week ended Sept. 3, covering latest available figures, show a drop in total claims for unemployment insurance of 3%. They, however, remained appreciably above the level of the like period in 1948. Initial claims, on the other hand, dropped nearly 5%, to a new low since November, 1948.

The coal strike and threats of a walkout in the steel industry were not without their depressive effects on steel production the past week. Steel producers and the CIO United Steelworkers resumed negotiations with steel management in an attempt to bring about an agreement before the union's Oct. 1 strike deadline.

At least 11 separate bargaining sessions were held in eight cities. The same report emerged from practically all the meetings—that they were "cordial and exploratory." All were recessed until Monday of the current week. Companies which conferred with the CIO group included U. S. Steel, Jones & Laughlin, and Crucible in Pittsburgh; Bethlehem in New York; Republic at Cleveland; Inland at Chicago, and Youngstown Sheet & Tube and Sharon Steel at Youngstown. The big issue to be resolved is whether or not the companies are to bear the entire cost of social insurance and pensions for the workers.

* * *

In wholesale field the past week the volume of orders for apparel rose somewhat with demand for juvenile apparel generally brisk.

A combination of Christmas ordering and back-to-school reorders raised the volume of both popular-priced and higher-priced merchandise.

The wholesale volume of foods remained at somewhat the same level as the preceding week.

A moderate dip in the demand for cotton gray goods reflected buyers' concern over possible future price fluctuations. The purchase of carded broadcloth rose moderately and increased ordering in the wool market was somewhat curtailed by apparent shortages of some woolens and some worsteds. Interest in yarns increased as many operators were preparing for the seasonal increase in the demand for apparel.

New orders continued to increase the past week for practically all types of housefurnishings.

* * *

The number of companies filing new business charters during the month of August showed an increase over the July rate, and for the first time in 20 months displayed a rise, though slight, over the corresponding month of the previous year, states "Dun's Review." New business incorporations last month numbered 6,828, against 6,424 in July, and 6,723 in August a year ago.

Compared with the July record, charterings in August were more numerous in 31 of the 48 states, while 26 states, or slightly over half of the total, showed increases over the August, 1948, level.

The aggregate of new company organizations during the first eight months of 1949 reached a numerical total of 57,135, comparing with 68,651 during the similar 1948 period, or a decline of 16.8%.

* * *

The August total of commercial and industrial failures was 13% higher than that of the previous month. Numbering 810, business casualties were 85% more numerous than in August, 1948; more concerns failed than in any other August since 1941. "Dun's Failure Index," adjusted for seasonal variations and extended to an annual basis, rose to 38 per 10,000 concerns in operation.

This rate, a postwar peak, compared with 22 per 10,000 in August a year ago and 71 in the similar month in 1940.

Liabilities in August were the largest since April, totaling $31,175,000. This was more than twice as large as in the same month of 1939. Liabilities were at the highest level for any August since 1933.

STEEL OPERATIONS FOR CURRENT WEEK CURTAILED BY STEEL STRIKE THREAT

In dollars and cents, steel firms and the union were not far apart as they resumed negotiations this week, according to "The Iron Age," national metalworking weekly. It is also possible that the significance of Russia's possession of the atomic bomb might seep into the negotiating sessions this week and tend to reduce the chances of a strike.

In the face of an urgent need for cooperation, steady output and a healthy economy this could be the agreement clincher. It is certain that government pressure to avert a tieup will be intensified as soon as it becomes clear that a steel strike would be a threat to national defense, this paper asserted.

British devaluation of the pound should prove an added incentive to settle domestic labor disputes quickly. A work stoppage now would cut into iron and steel exports and part of the business would be lost to European competitors. It might be hard to get back.

Most steel companies are willing to give 4¢ an hour for social insurance; a few have offered 6¢ an hour for pensions and none has flatly rejected the possibility of a 6¢ per hour pension payment or argued that employees should match the company contribution. As steel workers grew restless in some areas the solution needed was a compromise on the contributory vs. non-contributory issue, the trade paper noted.

If major steel firms agree to pay a total of 10¢ they will have come much further than was first thought. Phil Murray was said to be afraid the rank and file would balk at any payment beyond the 4¢ and 6¢ because of lowered take-home pay. In the last analysis,

(Continued on page 27)

Obstacles to American Capital

By EMIL SCHRAM*

President of the New York Stock Exchange

Extolling courage and leadership of Sir Stafford Cripps in devaluing pound, as well as joint formulation by American and British leaders of international economic plans, Mr. Schram urges similar courage and insight in conduct of domestic affairs. Though approving investing American funds abroad, points out risk capital everywhere is choked off by swollen budgets and heavy taxation. Reiterates slogan, "Equity for Equity Capital."

Events of the past few days have furnished an inspiring example of leadership and proof that even in the field of finance, where men seem to be almost wholly in the grip of unyielding forces, courage and insight still count. Sir Stafford Cripps was big enough to reverse himself, to his obvious great embarrassment, and our Secretary of the Treasury, John Snyder, was big enough to insist upon the healing, corrective value of realism.

Emil Schram

When Autumn comes, we cannot help but think of the year-end and of what 1950 may bring. As you know, I am not an economist. There is nothing rare in that, except that I seem to be one of relatively few in my awareness of the fact. Getting around and talking with representatives of various industries, however, I am struck with the intense desire for a period of balance and of stability. A year ago, the economy was suffering from inflation jitters, and earlier this year when the unemployment curve was moving up as steadily as food and other prices had in 1948, we had a spell of deflation jitters. While we all realize that perfect equilibrium is unattainable in a dynamic economy, business recognizes that nothing would be so helpful as a period of balance. Piece-by-piece adjustments could then be made without upsetting the applecart.

Let me illustrate what I mean by balance. Prices of farm products reached a peak early in 1948 when the American farmer was still attempting to meet the unsatisfied demand of a world hungry for food and other farm products. More recently, however, the farm problem has returned to more familiar lines. Farm receipts for the first nine months of this year are expected to be down to about $18.8 billion, or 11% less than a year ago.

The farmer is wondering whether the same number of bushels of wheat or bales of cotton will continue to buy a Chevrolet or a Plymouth, or a Chrysler or a Cadillac. Already the spokesmen for both political parties are planning for 1950. New parity plans are a sure crop. Parity has been the goal of national farm policy for upward of 20 years. Various approaches have been followed, but, as you know, the basic idea is to give agricultural commodities a purchasing power with respect to the articles farmers buy, equivalent to the purchasing power of agricultural commodities in a base period. In the past year, the trend has been against the farmer for the reason that, while all commodity prices have fallen, farm prices have fallen at a rate about twice as fast as manufactured goods. One of the ways of restoring balance in this important relationship is a gradual further reduction in the price of manufactured goods. Devaluation of the pound sterling and other foreign currencies will contribute to the pressure on finished goods prices in this country. This, however, will accelerate the trend toward further technological improvement and the application of vast amounts of added capital. More and more goods and lower prices are the means by which to restore and maintain a balance.

I cannot, as a responsible citizen, use the word "devaluation" in this talk at the present time without underlining some of the causes that have lead unmistakably to devaluation. It was the inability or unwillingness of the British Government—and other governments for that matter—to cope firmly with the problem of costs and production that brought them to the impasse from which they are now trying to escape. The realignment of other currencies with our dollar must mark the beginning of a rough and difficult road of economic readjustment if we are to look back and hail this operation with approval.

Swollen budgets must be cut; the wage line must be held; costs must be kept in line and production increased, even if it requires lengthening the work-week at standard wages. This is the foreign pattern as I see it, and this can be the pattern here at home in the course of the coming several years if we do not recognize the weaknesses in the socialistic trend, the aftermath of the war. Only our vast resources have enabled us to lend the willing aid we have to the outside world during this difficult time. I fail to see on the horizon any source of similar aid to us in the event we falter.

Investment and Taxation

Now, as much as we try to get away from them, the subjects of investment and taxation bob up at every point in the international trade crisis and general economic outlook. I am as eager as anyone to see the gap between our merchandise exports and imports cut down from the recent annual rate of roughly $6 billion. In all likelihood, the gap will tend to narrow. I question seriously, however, the soundness of the analogy that is so often drawn between Britain in the Nineteenth Century and our position, because Britain imported such materials as cotton, silk, grains and other foodstuffs, and was never nearly as self-sufficient as is the United States today. These are unadorned facts to which neither blame nor praise should be attached. In principle, I am whole-heartedly in favor of all our efforts to reduce our tariffs; but the limitations on the changes that can be brought about in our international balance of accounts in this direction are very real because we are so largely self-contained.

Our problem is more difficult because the dominant role in the world economy has been thrust upon us so quickly, and the world's needs are so vast and urgent. As I see it, the extent to which higher imports, not accompanied by a corresponding higher volume of goods leaving our shores, can act as a constructive force is limited indeed. The flow of capital abroad in various forms can be the greatest contribution of the United States. The United Nations' "World Economic Report" contains the following significant statement, and I quote:

"It would be difficult for industrial Europe, under any circumstances, to build up an export balance to the under-developed countries large enough roughly to offset its import balance with other areas, or for the under-developed countries to shift their present import balances with the United States to a heavy export balance. In fact, in the majority of both war-damaged European countries and the under-developed countries outside Europe, the urgency of rehabilitation and development calls for investments at a rate well exceeding that before the war."

The report then goes on to say that these countries would benefit from a resumption of the inflow of foreign loans and direct investments. Undoubtedly, this is true, but in their testimony in hearings before the Senate Committee on Banking and Currency, held only last month in connection with a bill to implement the President's Point IV, both the Secretary of the Treasury, John Snyder, and Winthrop Aldrich, Chairman of the President's Advisory Committee on Foreign Financial Problems, pointed out one of the great difficulties. They referred to the little incentive to invest abroad because of the small difference between domestic and foreign yields and the high returns available on American equi-

(Continued on page 26)

*Address by Mr. Schram before the 306th Regular Meeting of the National Industrial Conference Board, New York City, Sept. 22, 1949.

Cross-Winds and Currents in Business Outlook

By JOHN S. SINCLAIR*

President of the National Industrial Conference Board

Mr. Sinclair, asserting despite relief from threatened downward pressure of business, we still face uncertainties, enumerates current cross-winds in business outlook. Says prevailing "recession" is unique in that stability of income and extraordinary high rate of consumption is maintained, but warns price structure still is suspended is stratosphere. Attacks "do everything program" of Administration and illusion that income, originated and distributed by government, can sustain or improve nation's economic health. Deplores prevailing undercurrent of economic strife and discord, and calls for more emphasis on cooperation of social development.

The first year of recession is nearly over, for it was last October that our physical production reached the crest. Then it began to fall — at first slowly, then with accelerating speed. The Kremlin, watching us anxiously, smiled in grim anticipation of a collapse. But they were disappointed. We had paused to catch our economic breath, to get our second wind. Certainly we had not collapsed. The coming of the recession, if that's what it was, surprised almost no one —if anything, it had been overdue. But still there had been certain mysteries about it. It was coming, that was certain, but what would it be like? How long would it last?

John S. Sinclair

And even now that we have begun to feel relief from the immediate pressure, the same persistent questions present themselves. Again we face uncertainty, and while there is consolation in our confidence in the ability of our human and material resources to withstand whatever comes, we would still like to know what it is that is coming. We would like to know what to expect of the future.

Unfortunately, there is no single key to these economic mysteries, but rather myriad forces and indicators. We can find no controlling fixed point from which to orient ourselves. Everything is moving and dynamic. And some factors move erratically and unpredictably.

Let me borrow an illustration from my favorite recreation — sailing. A navigator, uncertain of his position, can by shooting the sun, or by observing the stars, or by consulting his charts and known points, find out precisely where he is. More than that, he can allow for wind and current and predict accurately a future position. But our problem is not so simple. The fogs and mists of ignorance and misunderstanding make it difficult to shoot an economic sun or observe the economic stars. Without the means of ascertaining our economic latitude and longitude we run the risk of being driven onto dangerous shoals by the gale ridden seas of drift and chance.

Were we observing a system of nature, our problem would be simpler. But the forces that comprise what we call our economic system are human forces. The laws that adjust and correlate them have not been permitted to function freely for a long time. This system, if it can really be called a system, has become political as well as economic, and the business executive has been forced to widen the scope of his concern beyond the particular problems of his own enterprise. He must keep a weather eye on his local government, his state capitol, on Congress and on a host of departments and agencies.

Nor can the executive stop here. He must remain aware of international conditions in their complexities — the matter of gifts, loans and adjustments in his foreign markets. He and his fellow citizens have been reelected to serve an indefinite term as the arsonal of democracy. And now Mr. Bevin tells him—rather unnecessarily, I suspect — that the world-wide problem of the Welfare State has become his problem as well.

These are the cross-winds and currents that may carry us far away from our intended destinations. And that is why they demand careful consideration.

Unique Among Recessions

The current recession has been something of a curiosity. Certain of its aspects make it quite unique among recessions.

In the first place, the flow of income has scarcely changed since the slump's onset. Judged by the criterion of income alone, this is the most prosperous recession in our history. In June of 1948 total personal income was officially estimated at $213.4 billion. In June of this year it was exactly the same. Income of farmers has declined, but this was completely offset by a rise in nonagricultural income, mostly in wages and salaries. Income declined again in July but the total for the first seven months of this year was fully $4 billion greater than a year earlier.

This stability of personal income is a marked departure from any past recession. In the 1937-1938 depression, income fell by fully 10%. In 1920-1921, the decline was far more severe.

The politically-handy conclusion that this recession is due to lack of income, lack of purchasing power, or maldistribution of income finds little support in fact. Yet this is the central argument that has been advanced to justify a fourth round of wage increases. Our national income, the average income of the lower and middle income groups, and even hourly wage rates in dollars, would have been regarded as impossible only a decade ago.

There was another unusual feature. The stability of income has been accompanied by an extraordinarily high rate of consumption. Consumers as a whole have not stopped buying. Particularly where price readjustments have given them better values, they have continued to consume. So far, the recession has shown itself primarily in the readjustment of our product-mix to a more normal peacetime pattern of production. This has led to the liquidation of over-priced commodities and unbalanced inventories, then to declines in employment in industries where this reshuffling has been taking place.

Popular reports notwithstanding, these employment declines have not been severe. Assuming a normal labor force of about 60 million, we can anticipate an average labor float of 3 million, or about 5%. Seasonal influences, youngsters seeking vacation jobs, for example, can increase this total about a million. But this summer, when this seasonal force was most active and unemployment was about 4 million, the development was widely considered as significant as the prolonged chronic unemployment of a decade ago.

An important by-product of the recession has been the revival of interest in certain submerged economic series. The controversy over the severity of unemployment, for example, has made necessary a review of the problems of measurement and interpretation in this area. Estimates up to nearly twice the official figures were published by some of the labor journals to influence public policy toward expanding relief provisions.

One of the Conference Board's round tables this afternoon was set aside for a balanced discussion of this problem by representatives of labor, industry and government. The points at issue in the techniques of measurement will emerge in these and similar discussions. But, the necessity for public education in the meaning of unemployment statistics will remain.

These then are unusual symptoms of our recession—the maintenance of a high income flow, unemployment, little greater than the usual labor afloat, and a high consumption level cushioning a period of readjustment in production.

The inventory - vacuum arising from this pattern of low-level production and high-level consumption began to exert an upward pressure well before its end results were apparent in the declining unemployment and rising production recently reported. Retail inventories have been reduced both in dollar amount as well as in relation to sales. In addition, the burden of inventories has been steadily shifted back to the fabricating stage, in keeping with the more familiar pattern of inventories. New orders in manufacturing advanced by about 8% as early as May and June, perhaps the first significant forerunner of upturn among our navigation equipment of economic indicators. This rise in new orders occurred in most lines and, in some, surpassed prevailing rates of operation.

Most of those who challenge the present market determination of price are inclined to dismiss the recent price decline as a mere token adjustment. They forget that chaotic or disorderly price correction could still touch off a whole series of unfavorable chain reactions on payrolls, employment and national income, as witnessed by the 1920-1921 pattern. This time the process of feeling out the market and developing new price lines and patterns, while clearing the warehouses or shelves of overpriced items—unwanted at their original asking price—appears to be succeeding.

But how significant is this success? Was not this only a relatively minor adjustment? Perhaps we have been inclined to exaggerate this slump. Until the recession gained momentum, there was little dispute over this nation's basic and immediate short-term problem. We were struggling with an inflation which compared with the worst in the nation's history. Prices were the highest for more than a century and a half.

(Continued on page 33)

*An address by Mr. Sinclair before the 306th Regular Meeting of the National Industrial Conference Board, New York City, Sept. 22, 1949.

From Washington Ahead of the News

By CARLISLE BARGERON

It is to be hoped that the Administration's propagandists will note that their latest effort to throw the American people into hysteria proved more or less of a dud. They had been holding on to their "disclosure" of Russia's having the bomb for at least a couple of months. The date of their "getting this information" has nothing to do with the facts of Russia's having the bomb. It is the date the propagandists concocted the big scare story. They had to hold it until some purpose could be served in releasing it. The purpose it is now intended to serve of course, is to jam through the arms aid program in the way the Administration wants it.

Carlisle Bargeron

Upon sober reflection, the propagandists must wonder whether their efforts were worth the trouble. The arms aid program has never been in jeopardy. By way of being formulators of foreign policy instead of just tools of the Administration, international experts Vanderberg and Dulles made an outcry about the appropriation sought being too much, but a close examination revealed they only wanted to lop off $100 million of a more than billion dollar fund. Really, theirs was but a carping criticism, never any obstacle to the Administration's plan. Dulles had to do something by way of "asserting himself" because in the debate on the Atlantic Pact he had authoritatively assured his colleagues, being the international expert he is, that there could be no implementation of the pact until the council which it created, met and determined upon a program. The words were hardly out of his mouth when the Administration submitted the aid program. The council hasn't met yet.

It may mean something in the future, though, that this latest propaganda blast seems to have left the public cold. It may be at long last that we are becoming immune to the propaganda drug, just as the doctors are finding that patients become immune to penicillin and the other miracle cures.

The only excitement I noticed in the case of this bomb scare was that of the propagandists warning us to be calm. Manifestly, they didn't want us to be calm at all. Some newspaper editorials are still telling of "reverberating echoes" and "echoes of reverberation." It hasn't been my experience. In the circles in which I travel, and they include Washington's taxi drivers, famed the world over for their talkativeness, the reaction has been, "well, so what?"

However, I can't say that the "disclosure" left me personally unmoved. It didn't frighten me but I dreaded the flow of silly statements that were bound to issue from so-called important men. This, I knew, would heighten my blood pressure.

European Monetary Union Cannot Succeed Without Political Union

By A. M. SAKOLSKI

Dr. Sakolski, commenting on French move to set up an European monetary union, reviews previous efforts and proposals along the same line, and concludes political as well as economic difficulties make such proposals impractical and ineffective. Cites loss of power over monetary matters by individual nations as impairment of sovereignty and holds inequality in economic and monetary resources of participating countries as practical union impediment.

Within two days after the announcement by Sir Stafford Cripps of the devaluation of sterling, along with similar devaluations by all sterling area nations, the New York "Times" published a special dispatch reporting that the French Government had approached Italy, Belgium, the Netherlands and other European countries suggesting they establish a common monetary system as a means of stabilizing their currencies. Whatever may be the true motive behind this move—whether to combat the new currency war initiated by Great Britain's devaluation action or a genuine endeavor to put an end to monetary and foreign exchange chaos in Europe—it is indeed a consummation devoutly to be wished. Certainly, European recovery and reconstruction cannot be permanently accomplished until unimpeded trade on the European continent is again restored, and this cannot be foreseen, regardless of Marshall Plan or ECA efforts, until impediments on the movement of the precious metals and foreign exchange restrictions are substantially removed.

A. M. Sakolski

The proposal of the French Government is not without precedents in European history. Suggestions for a European monetary union have for decades past accompanied similar suggestions for a political or economic union, and advocacy of an international monetary unit dates back almost a century. The late Prof. Alfred Marshall, the foremost British economist of the late 19th century, discussed the problem on various occasions and announced himself in favor of it. Walter Bagehot, renowned editor of the London "Economist," discussed in a series of articles during 1868 in this influential journal the advantages as well as the difficulties of an international coinage. But there was no serious suggestions then by writers of an all-out monetary union among European nations. In other words, they did not visualize a common monetary and banking system for the European nations under a common monetary authority.

The nearest approach to a suggestion for a complete international monetary system was made in 1868 by a British writer, R. H. Patterson, who in his book, "The Science of Finance," proposed a

unified monetary system along with an international bank, which would act in facilitating exchanges and the movement of capital among the leading European nations, principally Great Britain and France. Patterson was not a "professional" economist and held no official position in the British Government, and little attention was paid to his proposals.

Commenting on what he called the "war of banks" (meaning the central banks), in which there was a constant struggle among them for gold and exchange advantages, Patterson proposed a "Bank of Europe," the capital to be subscribed by the leading banks of the participating countries, which capital might consist of government obligations of the subscribing countries. But the main object of Patterson's scheme was not, as he stated, the creation of "a fountain of international paper money," but simply a means of conducting international exchanges of capital so as to economize the world's stock of the precious metals and thus lessen the ceaseless and transitory ebb and flow of specie. Thus, Patterson's scheme had the same purpose as the Bank for International Settlements.

The Latin Monetary Union

While these and similar proposals were being discussed by economists and statesmen in Europe, who were desirous of creating stable international trade and exchange conditions, a step had already been taken by several leading nations in Europe to create a semblance of a monetary union. In 1865, at the initiative and behest of France, which was then seeking to reestablish its political and commercial supremacy on the Continent, what has since been called "the Latin Monetary Union" was formed. In no sense, however, was it a genuine or complete monetary union. It was simply a treaty arrangement by France, Belgium, Switzerland and Italy (to be later joined by Greece and Spain), whereby uniform silver coins, to be interchangeable and legal tender in the participating nations, was agreed to. It was not, as has been erroneously ascribed to it, an agreement to maintain a fixed price for silver in terms of gold, though the difficulties of the scheme later grew out of the fluctuations that subsequently developed in the price of silver. Under the agreement, no arrangement was set up to take over the complete authority of minting gold or silver coins or of issuing paper currency.

Though the Latin American Union continued nominally in force until the close of the 19th century, its effectiveness gradually declined and eventually it became unoperative. Writing in 1901, the late H. Parker Willis, the authoritative historian of the Latin American Union, in commenting on the probable future of the arrangement, stated:

"The Latin Union as an experiment in international monetary action has proved a failure. Its history serves merely to throw some light upon the difficulties which are likely to be encountered in any international attempt to regulate monetary systems in common. From whatever point of view the Latin Union is studied, it will be seen that it has resulted only in loss to the countries involved."

What Are the Difficulties?

Passing over more recent attempts at international monetary cooperation, a topic already discussed by the writer in a previous issue of "The Chronicle" (June 24, 1944), let us consider here the "difficulties to be encountered," as already pointed out by Professor Willis.

In the first place, it must be assumed that any permanent and workable international monetary union must be based on an authority that is higher than that of the governments which separately compose it. In other words, it must necessarily impair the sovereignty of the participating members, since in its field of operations it must be supreme. This would not only deprive the individual countries of untrammeled means of sustaining their governments through their own individual fiscal policies, but it would weaken and even nullify efforts to regulate credit and other economic factors relating to their own welfare. It could cramp their activities to the extent of restraining their governmental actions in economic, social and political affairs and, above all, it could deprive them of the fiscal facilities of maintaining their very existence. Thus, an effective monetary union without a political union, such as was created under own own Constitution, in contrast to the previous "Articles of Confederation," seems highly impracticable.

Now, why is this so?

Here's the answer:

In modern times, money matters, as a concern of government, are not limited to coinage and its regulation. Under current conditions throughout the whole civilized world, the medium of exchange and the value of the monetary unit is closely and inextricably related to government fiscal policy and credit controls. The creation and regulation of currency, whether assigned ostensibly to a central bank or directly performed by a national government, is an essential attribute of sovereignty, and no modern nation can perform its functions or sustain itself, through taxes or otherwise, when it lacks this power. This is borne out by the constant overriding of central banking powers through governmental actions and policies. Throughout the history of central banking, whether such institutions have been privately or publicly owned, the power and interest of government has superseded that of the public and commercial interests which the banks were set up to serve. Commenting on this development, the late Dr. Willis, in his book, "The Theory and Practice of Central Banking," observed, "Both in the United States and nearly everywhere else, central banking systems has been the constant object of hasty, crude, destructive legislation."

Another and still more important difficulty from a purely practical standpoint in the formation of a European monetary union is the disparities in the wealth, resources and economic status of the various nations that would comprise the organization. This inequality is not limited to productiveness, technical skill and arrangement, but extends to facilities for trade and for meeting foreign payments and commitments. It cannot be expected that under the economic stress of postwar conditions, human nature would be changed to the extent of reversing the former political and economic rivalries and jealousies of the leading European nations—a rivalry that kept up a sort of continual economic warfare among them, even during the intervals when, militarily and otherwise, they were at peace. If any monetary union is accomplished in Europe, it must necessarily be limited to a few nations, such as comprise the Benelux countries, which have common and concurrent interests, and are on the same plane of political, economic and commercial development, and which are not rivals in the eternal contest for economic and financial supremacy.

Benjamin Graham to Speak at New School

Benjamin Graham, President of Graham - Newman Corporation, will lead off a series on "Today's

Benjamin Graham

Investor" at the New School for Social Research, 66 West 12 Street, on Thursday Sept. 29 at 5:20 p.m. The course, of which A. Wilfred May, economist and executive editor of the "Commercial and Financial Chronicle," is Chairman, will meet weekly for 15 sessions.

Government-Business Tension in Relation to Business Outlook

By JACOB VINER*
Professor of Economics, Princeton University

Dr. Viner, commenting on American economy and its capacity to maintain high-level prosperity, points out free enterprise has remediable flaws. Deplores current methods of selling virtues of free enterprise to public and condemns hostility existing between business and government. Suggests methods of government-business cooperation in solving monopoly problems, economic stabilization and improved tax structure and in fortifying free enterprise system.

The topic assigned to me is infinite in its scope, while my range of knowledge, and even of opinion, has very definite limits and I am sure it would be inexpedient for me to assume that your patience and tolerance are unbounded. I will therefore confine myself to a few points of special interest or relevance at this time.


Prof. Jacob Viner

Since the onslaught of the great depression, American business has been very much on the defensive before American public opinion, and one of our great political parties has remained in power without a break since 1932 largely by virtue of reflecting or responding to, and at times perhaps even stimulating, this trend in public opinion. There have been previous periods in American history which offer a parallel. But never before, I believe, was there as much danger to private enterprise in the hostility to it, partial or sweeping, among large sections of the American people, as there is at present. Before World War I critics of private enterprise had no real alternative to offer beyond abstract speculations unsupported by actual experience and working models. Today the American economy is one of only a handful of national economies which is substantially a free enterprise economy, and even American businessmen, conscious of a variety of Federal regulations and restrictions on their freedom, probably become truly conscious of how free they still are only when they contemplate the state of affairs in England, in Sweden, in Australia, in Hindustan, or in American-occupied Western Germany and Japan—to say nothing of Soviet Russia and its satellites. There is now no scarcity of knowledge as to procedures and ways of regulating business so as to make it less free, or of liquidating private enterprise altogether.

It is not an adequate answer to proposals for such regulation or liquidation to say that they will lower the level of material prosperity. It is not an adequate answer partly because it is sometimes, perhaps often, difficult or impossible to demonstrate convincingly that it is a true answer. It is not a satisfactory answer partly because a good deal of mankind today whether foolishly or wisely, demands of its national economies other merits over and above that they shall yield prosperity. If forced to make deliberate choice, many might prefer these other things to refrigerators, chromium-plated automobiles, and economic freedom, and many can easily be persuaded, even when such may not be the case, that it can have these other things and refrigerators and political freedom too, if only it is patient enough.

The American economy has demonstrated its capacity to deliver over the years high-level prosperity, as measured by previous American standards of living and, still more, as measured by current standards of living in other countries, whether these operate under free enterprise or under other systems. It is my impression that an overwhelming proportion of the American public, including sections that are cold or hostile to American "business," are ready to assign to the inventiveness, venturesomeness, and administrative genius of the American captain of industry a substantial part of the credit for this prosperity.

What are these other things which men ask of economic systems of their country in addition to prosperity? In addition to a high average standard of living? They ask, and have learned or been taught to ask increasingly, that this prosperity shall prevail with a fair degree of stability, instead of accruing in a succession of hysterical booms and desperate depressions. They ask that this property shall be distributed, as between employers and employees, the privileged and the underprivileged, the country and the city, north and south, not with arithmetical equality but without glaring departure from visible equity. They ask also that there shall be for those in modest economic circumstances some measure of organized security other than through humiliating charity against the buffeting of fate, against the economic hazards of old age and death, of sickness and disability, of undeserved unemployment. I believe that above all these they ask for status and dignity, for a place in the sun for protection against being pushed around by other men not obviously superior to themselves except in possession of superior power derived from wealth, or class, or combination of strength. The racial minorities, of course, ask also for freedom from discrimination on account of complexion, creed, or racial origins. For these other things, men who regard them as lacking and have learned to want them, for economic security, equity, dignity of status, men in large numbers may be willing to pay a heavy price in prosperity and, alas even in freedom. In increasing numbers they have become convinced that these other things are obtainable only from government, from government which imposes on private enterprise the pattern it shall follow, or from government which wholly takes over from private business — and from the labor unions—the conduct of the national economy.

Many of these critics of business are unfair, some of them deliberately and calculatingly so. Many of these critics do not know when they are well off. Many of these critics of private enterprise are Utopian in their demands of human society; they ask for better bread than can be made even from the best of the wheat that is available. Some of them may be maladjusted individuals who would complain even in heaven if only that the harps were not tuned to their liking. It is unreasonable to ask of any human institution that it attain perfection, and even perfection is not to all men's tastes. All of this is true, and no doubt relevant. But it settles no issues. The dissatisfaction with the economic *status quo* is too widespread, too deep, too varied in character, to be safely disregarded by businessmen, and others who are not businessmen are unwilling to disregard it even if they do not share it. In a democracy, if dissatisfaction with an issue is widespread, there will always be politicians—or statesmen—who will give heed to it, and who will do things to the institution.

The believer in free enterprise in its moral virtues or at least respectability as well as in its superiority from a material point of view over any rival system as a working method of organizing society for production, should keep an ear open for these criticisms. Refusal to do so, whether because of inertia, or self-righteousness, or overoptimism, or defeatism, may well lead in time, in some period of strain and emergency, to free enterprise going here as it has gone elsewhere. Above all, the believer in free enterprise as it operates in this country should not be led by the fact that he finds nothing disturbing to his peace of mind in the editorial columns of the great metropolitan dailies—or weeklies—to underestimate the prevalance of criticism, or its potential rate of growth in quantity and intensity if the economic barometer should drop. The businessman, per capita, profits most, and has in this sense at least most at stake, in the survival of free enterprise. He should therefore find a special interest if not a special responsibility, in striving wisely and skilfully to strengthen its appeal to the public mind, perhaps by increasing the extent to which it merits such appeal.

One method of pursuing this objective I certainly would not recommend. To search for "dangerous thoughts" in the printed page, in sermons from the pulpit, or in the classroom, or to attempt through influence, financial pressure, or legal coercion, to suppress the critic is a procedure which, whatever its short-run success might indicate, in the long-run weakens the institution on whose behalf it is applied. If free enterprise is so fearful of frank, or even of prejudiced, appraisal that it resorts to suppression of freedom of thought to avoid it, it will be subjected to an even more prejudiced appraisal by means of a whispering-campaign of major proportions. The objective believer in it on its net merits as they are in fact, or as they might be made to be, will refuse to speak about what is good in it if he is not left free to speak or think of its possible deficiencies. There is bigotry in the criticisms of American free enterprise, but the best ways of coping with it do not include matching it with an opposite bigotry.

The American press is at the moment full of manifestations of the copywriters' art devoted to what seems to be a concerted program of "selling" the virtues of free enterprise to the American

(Continued on page 29)

*An address by Dr. Viner at the 306th Regular Meeting of the National Industrial Conference Board, New York City, Sept. 22, 1949.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Income—26 stocks selected for income—brochure—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Local Notes — Bulletin — The Bankers Bond Co., Inc., Kentucky Home Life Bldg., Louisville 2, Ky.

Over-the-Counter Industrial Stock Index — Booklet recording 10-year performance of 35 industrial stocks—National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Turn in the Oil Situation—Analysis—Bache & Co., 36 Wall Street, New York 5, N. Y. Also available is the Bache **Selected List** revised to Sept. 15.

25 Years — Commemorative booklet issued in connection with 25th anniversary and containing comparative statistical figures on selected unlisted Ohio stocks—Merrill, Turben & Co., Union Commerce Bldg.

* * *

American Power & Light—Brief review—Ira Haupt & Co., 111 Broadway, New York 6, N. Y. Also available are brief reviews of **Niagara Hudson Power** and **Electric Bond & Share.**

American Vitrified Products—New analysis—Zippin & Co., Inc., 208 South La Salle Street, Chicago 4, Ill.

Central Hudson Gas & Electric Corp.—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Central Public Utility Corp.—Report—F. S. Yantis & Co., Inc., 135 South La Salle Street, Chicago 3, Ill.

Colombia Bolivia—New study—Zippin & Co., 208 South La Salle Street, Chicago 4, Ill.

Domestic Credit Corp.—Analysis—Smith, Burris & Co., 120 South La Salle Street, Chicago 3, Ill.

Illinois Central Railroad Co.—Discussion of offer of exchange—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Lake Superior District Power Co.—Analysis—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Also available is an analysis of **Ed. Schuster & Co., Inc.**

New Orleans Public Service Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Oregon Portland Cement—Late data—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

Phillips Tutch Latch Co.—Memorandum—Edelman & Capper, 29 Broadway, New York 6, N. Y.

Also available is a memorandum on **Western Gold Mines.**

Southern Pacific Co.—Summary and opinion—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Sterchi Bros. — Memorandum—Dreyfus & Co., 50 Broadway, New York 4, N. Y.

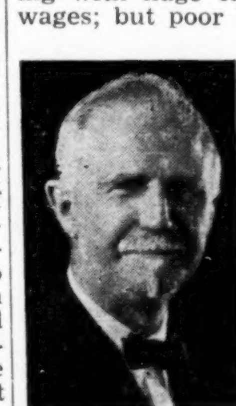
United Aircraft Corp.—Special review—John H. Lewis & Co., 63 Wall Street, New York 5. N. Y.

The Cult of Getting Something For Nothing

By ROGER W. BABSON

Mr. Babson, commenting on neglect of Wall Street, says, through SEC discouraging buying of stock, gambling has been transferred elsewhere, and public, particularly labor, is practising cult of seeking to get something for nothing. Urges buying of good stocks.

Today Wall Street is the most conservative street in the United States. California is bursting with people; the Central West is bursting with huge crops; city people's pockets are bursting with high wages; but poor Wall Street is neglected. Once when talking with President Roosevelt he said to me: "Roger, I will fix your Wall Street friends for encouraging people to expect to get something for nothing. It just can't be done and you know it." Consequently, he had the Securities and Exchange Commission formed so that a banker cannot "blow his nose" today without first getting permission from Washington!


Roger W. Babson

It is true that this discouraged people from buying stocks; but the "SEC" did not stop the people's desire to get something for nothing. The business of the race tracks immediately boomed. Pinball and numbers games grew by leaps and bounds. People began to bet on football, baseball, and other sports which they never bet upon before. There is more gambling today than ever. Only a spiritual revival can stop the desire of people to get something for nothing.

Union Labor Getting Something for Nothing

But we do not need to come to Wall Street, or to go to the race tracks, to see people trying to get something for nothing. The most flagrant cases are where wageworkers are striking to **get more pay for less work.** It is okay to expect more pay for more work, but to expect even the same pay for less work is merely trying to get something for nothing.

On the train last week some shoe workers complained to me because they had not had a raise in pay this year. Yet, they admitted that they have two weeks' vacation with pay, a week's sick leave with pay; a half hour of "rest periods" to smoke and play cards each day with pay. All this and holidays with pay amounted

(Continued on page 43)

Pension and Welfare Funds

By DR. A. L. GITLOW
School of Commerce, New York University

Discussing the pro and con of pension aid welfare funds in their political as well as economic aspects, Dr. Gitlow recommends, in connection with these provisions: (1) sound actuarial basis; (2) strict regulations to minimize malingering and political abuse; (3) recognition by workers of value of employer's contributions and (4) independent and actuarial administration of funds to avoid making them adjuncts to union administration.

Pension and welfare funds have moved from the periphery to the center of the labor relations stage. They are no longer "fringe" demands. This change is a step in the continuing evolution in the major demands of organized labor: from union security; to direct wage and hour revision; to greater worker-security. The Presidential Fact-Finding Board in the steel dispute recognized this. They said: [1]

Abraham L. Gitlow

"Since the Wagner Act was enacted, however, unions have become firmly entrenched, and the areas of their activity have changed. No longer do they deal simply with a single employer for such things as recognition, union security, and basic wage and working conditions. They now concern themselves with all sorts of conditions in which their members have an interest or stake, like insurance and retirement plans."

Various explanations have been offered for the emergence of worker-security as a primary objective of organized labor. First, it is explained as a product of the expanding social philosophy of so much present-day economic thought. The Steel Fact-Finding Board expressed this view when it said: [2] "The concept of providing social insurance and pensions for workers in industry has become an accepted part of modern American thinking. Unless government provides such insurance in adequate amount, industry should step in to fill the gap." Philip Murray had expressed himself earlier in these words: [3]

"Workers in American industry go through life plagued by a constant fear that some day they will suddenly lose their income by sickness or accident which will prevent them from keeping a job.

"They worry about their own ability to provide adequate medical protection for the wife and children.

"They look forward with apprehension to the day when the boss comes around to tell them they are 'too old' to be carried on the payroll.

"That type of treatment is becoming more repugnant to the average American year by year.

"We in the United Steelworkers and CIO feel that it is about time that owners and leaders of American industry be made to understand that they have a deep-rooted responsibility toward helping to lift those shadows of fear from the people who work in industry."

Second, it is understandable that worker-security demands served American unions during the recent war, as a substitute for direct wage adjustments, which were prohibited under wartime wage-freezing regulations. There is ample testimony to this. In the words of the "Monthly Labor Review," . . . employers' contributions to health funds are regarded by the unions as a substitute for a wage increase. . . ." [4]

There is no doubt that both explanations possess validity. However, there is a third explanation, also important, which has been receiving insufficient, though growing, attention. That is the political importance of worker-security programs to union leaders. Why are such programs politically important?

Political Implications

First, pension and welfare funds create worker adherence to a union. They attract non-members and hold members.

Second, they are a material source of worker goodwill and appreciation toward the union, and its leaders. Gratitude, is a basis for loyalty, and rank and file loyalty is of great importance to labor leaders.

Third, it is sometimes intimated that union leaders may obtain rank and file support by encouraging the workers to malinger and make unjustified claims upon the security funds. The basis of contribution to such funds may be important in this respect. Currently, the leaders of the steel industry are maintaining that the workers should contribute something to such funds. The union leaders argue that the workers should not have to contribute at all. The industry's leaders seem right on this issue. The tendency to malinger would probably be less where the workers were contributing to the insurance funds, for they would then have a direct interest in its costliness. Presumably, they would be more anxious for efficient and honestly run funds under such conditions.

It should not be inferred from this that the leaders of the United Steel Workers wish non-contributory funds because they intend to encourage malingering. I think their attitude may be understood on a much more direct and simple basis. *At the moment of writing, no one seems to have called attention to the fact that introduction of contributory social insurance funds, without direct wage increases, means a loss in worker take-home pay.* The worker's, and his family's, attention is riveted usually on take-home pay. They see and feel immediately any drop. Consequently, their appreciation of the more-than-compensating gain in security is dulled. *They may lose all appreciation of the achievement of security, and become dissatisfied with the settlement made by their leaders.* Such a result would be politically dangerous to Mr. Murray and his associates. I believe this is an important point in understanding their insistence on non-contributory funds. Businessmen must understand this and display a flexible policy. An intransigent attitude may drive rank and file workers into the arms of recklessly militant, or Communist, labor leaders.

Wage increases are not the answer. The steel board was right in rejecting them at this time. Neither does understanding the union leader's political position justify the non-contributory principle. It does make necessary, however, the conscious and intelligent use of all informational and educational avenues to win rank and file approval. They must realize that a contributory social insurance program, *partly* paid for by themselves, is a gain in income rather than a loss. When Ford workers voted for a direct wage increase, rather than pensions, they indicated the difficulty of the educational task.

Fourth, pension and welfare funds offer an opportunity to a union, and its leaders, to build up and control a financial reservoir. A wage advance goes to the workers directly. The union can benefit financially only by altering dues, assessments, etc. But in the case of a fund, the union usually finds itself in control. That one of the purposes of such funds is sometimes the financial reservoir itself is to be deduced from the lack of enthusiasm with which some union leaders greet suggestions that employer contributions be based upon scientific actuarial study of the risks involved.

Fifth, many share the opinion that while wage rates might decline under depression conditions, social insurance funds would not be abandoned. The Steel Industry Board subscribed to this view when it stated: [5]

"Whereas increases in wage rates depend upon profits of companies under relatively current conditions and over relatively short periods of time, social insurance and pensions—especially pensions—involve long-range considerations because, *once installed, they cannot well be discontinued.*"

Consequently, such funds would be a source of union strength when most needed. Rank and file would not abandon union membership as readily as they otherwise might, during depression years, if doing so meant giving up long-standing benefit rights. Being a welfare matter, the arguments for retaining such programs during depression years would become more compelling than during periods of prosperity. Further, it is possible that union leaders might discover that retention, or even improvement of welfare programs, could be traded in depression period collective bargain-

(Continued on page 34)

1 Steel Industry Board, "Report to the President of the United States," p. 25.
2 Ibid., p. 8.
3 In a guest article, appearing in place of Victor Riesel's "Inside Labor," *New York "Post" and "Home News,"* June 20, 1948.

4 *"Monthly Labor Review,"* January, 1948, p. 39.

5 Steel Industry Board, op. cit., p. 7. Italics added.

Mutual Funds

By HENRY HUNT

Confidence Campaign

The Bank of America National Trust and Savings Association, largest bank in the world, is starting an advertising "confidence campaign" throughout California designed to reassure the retail consumer. According to President Giannini, the consumer's present uncertainty "could be remedied substantially by aggressive and resourceful salesmanship to convince him that high quality goods are now being offered at reasonable prices."

It seems to the writer that the present uncertainty of potential common stock buyers could be remedied by a similar campaign launched by the investment community at large as well as mutual fund dealers in particular.

Many salesmen of common stock mutual funds start out selling the mutual fund idea and end up trying to sell one or another special fund. We believe that salesmen who use such an approach are overlooking the first and most important step, namely, to convince the prospect that leading common stocks are "high quality goods now being offered at reasonable prices."

Once a prospect is convinced of the attractiveness of common stocks in the present market, it should be easy to sell him on the idea of purchasing them through one or more mutual funds.

Assets of Investors Mutual Cross $150,000,000

Earl E. Crabb, President of **Investors Mutual** reported that net assets as of Sept. 8, 1949, were $154,487,007 with shares currently held by more than 73,000 shareholders. Investors Diversified Services, Minneapolis, is the principal distributor and investment manager of the fund.

Considering the fact that Investors Mutual was organized only nine years ago, its growth has been little short of phenomenal. Congratulations, Mr. Crabb!

Keystone Reduces Acquisition Charge on Large Purchases

Substantial reductions in cost on purchases of Keystone Fund shares in the amounts above $50,000 have been announced by **The Keystone Company of Boston,** underwriters for Keystone Custodian Funds. The present initial charge of 8.3% of the sales price has been reduced to 6.3% on the excess of single purchases over $50,000 and to 4.3% on the excess over $100,000.

The reductions have been put into effect primarily to benefit large individual and fiduciary investors who have shown an increasing interest in the use of investment funds such as Keystone, the underwriters said. Fiduciary and institutional holders of Keystone shares currently number more than 1,800—an increase of approximately 600 in the past two years. Included are trustees, foundations, insurance companies, corporations, hospitals, schools, churches, libraries and others. Keystone's total net assets presently exceed $170,000,000.

Basic Forces at Work

"The considerable rise in common stock prices between mid-June and mid-August, in the face of continuing declines in the general level of business activity, was no particular surprise to those who have kept an eye on basic economic forces. Among the more potent factors that have helped shore up stock prices, despite domestic and foreign political uncertainties and the business adjustments that have taken place, are: the huge increase in the money supply; the stepped-up growth of population; greatly expanded plant capacity; and the wide discrepancy between yields obtainable from bonds and common stocks. In the last year or so, these 'Letters' have discussed each of these factors at some length. Between them, they afford a logical explanation of the seemingly paradoxical behavior of the stock market.

"Barring the apparently unlikely event of a severe business decline from today's levels, basic economic factors appear to provide an unusually favorable background for long-term investments in common stocks. Not only in the light of present and recent-past earnings, but in the light of potential future earnings, many common stocks seem to afford excellent opportunities for both income and long-term capital appreciation."—From **Broad Street Sales Corporation's** "Letter."

$6,300 Prefabricated Houses

"Gunnison Homes, Inc., subsidiary of U. S. Steel (SAS 9900), announces a four-room prefabricated plywood house to sell at $6,300, including the land. Price will vary between localities, but house is designed to take advantage of the 95% FHA mortgage insurance where the appraised value of house and lot do not exceed $6,300. Homes that qualify can be bought for $350 down and about $37 a month. Several such houses have been erected at New Albany, Ind., at a cost of $5,800, including site and landscaping. House is 28 feet by 34 feet, has two bedrooms, streamlined kitchen with double compartment sink and wall cabinets, bath with built-in linen closet, utility room with oil or gas-fired burner in forced-air heating system, and an automatic hot water heater. Doesn't include range, refrigerator, basement or garage."—From "These Things Seemed Important," issued by **Selected Investments Company of Chicago.**

LETTER TO THE EDITOR:

Sees SEC Paralyzing Already Crippled Capital Markets

Cyrus S. Eaton says proposal purporting to "liberalize" new securities offerings is further attempt to extend Commission's already overpowering authority.

Editor, Commercial and Financial Chronicle:

The Securities and Exchange Commission is reported to be on the verge of sending a proposal to Congress for legislation purporting to "liberalize" the offering of new issues of corporate securities to investors. The SEC proposal, in reality, is an attempt to extend the Commission's already overpowering authority. Its enactment into law might well provide the final straw needed to break the back of that already badly crippled camel, the capital markets.

Cyrus S. Eaton

Congress would be well advised to greet the SEC's suggestions with skepticism, for nothing has done so much to paralyze the capital markets as the SEC, with its endless and obstructive red tape. The International Bank, it will be recalled, found its work so impeded by the SEC that special legislation was obtained to exempt the Bank's financing from SEC jurisdiction.

Access to the capital markets has practically been denied to the medium-sized and smaller companies by the SEC. In the 12 months ended June 30, 1949, for instance, only 5 bond issues of less than $1,000,000 were registered with the SEC and cleared for cash sale to investors. In other words, only 5 companies with financial needs in this category were willing to endure the elaborate and expensive ordeal of SEC registration. This is appalling in a nation of 425,000 corporations, most of which ought to be expanding with our growing population.

The SEC is barred by statute from interference in municipal finance, and during the same 12-month period, 5,466 municipal issues aggregating more than $4,000,000,000 were sold to the public for cash. Had the communities that sold their bonds been forced to submit to the SEC's red tape, most of them assuredly would have been unable to raise the funds they needed.

The SEC's fanatical attacks on private investments are also in large measure to blame for the fact that the stocks of many companies are selling in the market at prices less than the per share values of the working capital of these companies. This means that the market puts no value on the property, plant and equipment of a great many of our corporations, large and small. How can we build new mills and factories when existing ones are worthless in the eyes of investors?

If our capitalistic system is to escape extinction, there is urgent need for a thorough overhauling of such regulatory agencies as the SEC, the so-called blue sky commissions of the various states and the quasi-governmental body known as the National Association of Securities Dealers.

CYRUS W. EATON.
Terminal Tower,
Cleveland 13, Ohio,
Sept. 23, 1949.

LETTER TO THE EDITOR:

Sees Emigration as Alleviation of Britain's Problem

Gerald G. Bernheimer says it would relieve Island Kingdom of vicissitudes of import-export fluctuations.

Editor, Commercial and Financial Chronicle:

The devaluation of Great Britain's currency brings to the foreground the causes for the present sad state of affairs in the United Kingdom. Perhaps after due deliberation the inhabitants of that country will not be so "united" after all.

Throughout the centuries England has been a great World power because of the ready availability of raw materials so easily obtained from its colonies. There has been a consistent and deliberate effort to keep these colonies entirely dependent on the "Mother" country by not permitting them to process the raw materials into finished merchandise. Proof of this can easily be seen in the export of wool and the import of woolen suits and sweaters into Australia, with transportation charges both ways and the manufacturing costs and profits included in the Australian sales price.

Since losing the various colonies, England has been on a very definite downgrade both from a prestige and a monetary standpoint. How long can a subsidized economy last, if the basic earnings and necessary commodities are lacking?

A simple solution to this gigantic problem is impossible but the situation would be somewhat alleviated by the exodus from Great Britain of millions of workers, artisans, etc. who could make Canada, Australia, New Zealand and India into self-supporting and self-sufficient areas. This emigration would solve the unemployment problem. If England would finance the relocation costs and stability of earnings of the workers for the short time until they could support themselves, a proper educational program of the job possibilities in these areas, so foreign to the average Englishman might look tempting indeed.

In other words my proposal would reduce the number of mouths to feed and would insulate the "island kingdom" from the vicissitudes of import and export fluctuations. Great Britain would then be gradually reduced to a pastoral or semi-agricultural nation and would have the same self-sufficiency of Ireland and Scotland.

If the powers that be would look behind the scenes and not concern themselves with the present value of the pound in other currencies, this world would easily be a much better place to live in.

GERALD G. BERNHEIMER
40 Exchange Place
New York 5, N. Y.
Sept. 22, 1949

LETTER TO THE EDITOR:

A Defense of Investment Trusts

C. J. Stubner, of Stubner & Co., Pittsburgh, though agreeing with premises of John Dutton in his article, "Let's Not Go Overboard on Mutual Funds," contends investment trust distribution furnishes profitable opportunity for unlisted securities dealers to supply investors with participation in sound listed securities.

Editor, Commercial & Financial Chronicle:

I read with great interest the article by Mr. John Dutton that appeared on July 14, 1949, in the "Commercial and Financial Chronicle" entitled "Let's Not Go Overboard on Mutual Funds," and feel that this is a genuine contribution to the thinking on investment trusts, especially at the present time when they have come into increasing vogue. My first employer in the investment business, which was way back in 1915 and in Wall Street, used to point out with incredible foresight that there was a fashion in securities just the same as there was in women's hats, and investment trusts are now fashionable.

I agree with the basic premises of Mr. Dutton in this article. At the risk of being inconsistent, I wish at the same time to cover in detail why this firm finds it expedient to recommend and sell investment trusts, even though being in sympathy with Mr. Dutton's views.

In virtually every industry, except the financial industry such as banks and insurance companies and the like, the leading equities are listed on either the New York Stock Exchange or the New York Curb. The lesser known but still reasonably prominent companies frequently list their equities on the regional exchanges. This narrows the selection by over-the-counter houses to comparatively inferior securities. In times of generally rising prices this may not be too serious as often the under-priced securities show greater percentagewise appreciation than blue chips, but in times of hesitancy and discrimination in the selection of securities, it may be very detrimental and the lack of aggressive market sponsorship might necessitate acceptance by the stockholder of a price very disproportionate to intrinsic values in event of a forced sale. When you sell a client an investment trust, you know that you are offering him primarily the leading stocks in the United States.

To be sure the dealer can participate in so-called syndicates and new issues. But the opportunity to participate may bear no relationship to the dealer's ability and other personal qualifications, but on the contrary may depend on a nebulous thread called "connections," the establishment of which might conflict with the dealer's own sense of personal dignity. He might feel he preferred to stand or fall on his merits, particularly if the remuneration involved was so meager as to affront his sense that after all a laborer is worthy of his hire. Or a dealer might be preluded from a past-moving syndicate because of a lack of vested "historical" interest in the business, as I believe the parlance has it. Furthermore, the subsequent market experience of many new issues has not been happy even though the clinching argument with the client has been that application would be made to list on the New York Stock Exchange, a fact which the salesman can point to in the prospectus, which otherwise the client perhaps wouldn't bother to read at all.

I believe that the prejudice against over-the-counter securities as such is increasing on the part of the investing public. Human nature being what it is, it would be natural that this prejudice could be fostered by so-called customer's men in New York Stock Exchange brokerage houses, sometimes unwittingly. It is often sufficient merely for the fact of the security being an over-the-counter security to be pointed out to kill a piece of business that you have painstakingly worked up. If the client still feels disposed to invest some money with you, he may tender you a listed order which will prove to be just an expense. You have to execute it at a loss because you have your overhead and make nothing on the sale.

To avoid this happening you have the alternative of offering him an investment trust and your basic argument then becomes that, although the investment trust itself is unlisted, at the same time the overwhelming majority of the securities in the portfolio are. In combating the unlisted feature of the shares themselves, you can use the argument of liquidity through the privilege of surrendering the shares and getting the asset value at any time of your own election. So the presence of investment trusts on your list may be the difference between getting a remunerative order or having the fruits of your efforts go to somebody else who did not spend a cent to create the business.

If you do get an over-the-counter order, even though your mark-up bears a reasonable relationship to the market under the definition of the NASD, the price at which you have billed the stock will not bear a reasonable relationship to the equivalent of the New York Stock Exchange commission on a stock in that price range. If the client checks your execution with a customer's man and it is the policy of his firm to execute over-the-counter orders as an agent and at the regular commission rates, then you may lost the good will of the client entirely, and he may feel that he is being robbed. The customer's man can probably afford to deal that way, particularly if he has exerted no effort or been put to no expense to get the order, but you cannot. In the presentation of trust shares, you have a price structure that is immune from the most rapacious competition, because the price can neither be lowered nor raised by the dealer in so far as pricing to the client is concerned.

Mr. Dutton urges a dealer not to lose confidence in himself and wonders perhaps why one who may have spent his whole lifetime in the investment business should abdicate his own position as an investment advisor to his clients in favor of the investment trusts and for a mess of porridge, considering that he is voluntarily freezing the capital since from then on the investment trust makes the portfolio changes.

I agree again with this position except that, with the small investor, the investment trust people have an unbeatable argument since the client does not have sufficient capital to spread his risk among a measurable number of securities, but the crux of the argument is not the element of management but the element of diversity.

As far as I am concerned there is nothing sacrosanct *per se* about the managements of investment trusts any more than there was about the bankers who prior to the 1930s recommended and distributed securities among the customers of the bank in competition

(Continued on page 24)

Savings Banks' Policy in Meeting Lower Interest Rates

By AUGUST IHLEFELD*

President, Savings Bank Trust Company

Mr. Ihlefeld, noting recent downward trend in interest rates, recommends as policy for safeguarding banks' earnings: (1) retention of long-term bonds instead of selling them out at premiums; (2) shifting out of long-term governments only when alternative investments of good quality give much higher yields; (3) taking advantage of amendment to New York savings bank law permitting limited purchase of ineligible securities, and (4) acquiring sound real estate mortgages for increasing yields.

A drastic change has taken place in interest rates and bond market conditions since I had the privilege of speaking to this group one year ago. At that time, interest rates were rising. In part, higher interest rates resulted from a larger demand for funds caused by price inflation and expanding business activity. In part, the rise in rates was brought about by increases in reserve requirements of member banks of the Federal Reserve System and by other steps taken by the monetary authorities to restrict credit in order to combat inflation. As private borrowers offered to pay higher rates of interest, institutional investors were tempted to sell United States Government bonds so that they could reinvest at higher rates of return. Only the purchase of billions of dollars of Treasury bonds by the Federal Reserve banks prevented a more severe decline in the government bond market, and a more pronounced rise in interest rates, during 1947 and 1948.

August Ihlefeld

*An address by Mr. Ihlefeld at the Annual Meeting of Group V, Savings Banks Association, Brooklyn, N. Y., Sept. 27, 1949.

Today, we face radically changed conditions. The recession in business and commodity prices has cut down private demands for funds. Business loans by commercial banks declined by more than $2 billion during the first six months of 1949. Simultaneously, the Federal Reserve authorities have acted vigorously to combat deflation through such steps as reducing the legal reserve requirements of member banks and changing open market policy.

The reversal of economic trends and credit control policies during the early months of this year has caused banks and other financial institutions to bid actively for government securities once again. For several months, the Federal Reserve banks sold government bonds freely to prevent prices from rising much above the prices at which they had been pegged in 1947 and 1948. Then, on June 28, the Federal Open Market Committee dramatically announced, in effect, that the policy of selling government bonds by the Federal Reserve banks would be halted.

On June 28 the Federal Open Market Committee made a significant statement which summarizes present Federal Reserve policy in three sentences. The first tells us that the Reserve banks will operate "with primary regard to the general business and credit situation," which means that they will favor low interest rates so long as a business recession or depression is in evidence. The second sentence says that the Reserve banks still mean to maintain "orderly conditions in the government security market," which could mean that in the event of future weakness prices would be pegged again. And the third sentence makes it clear that a fixed pattern of interest rates is not desired whenever this "has the undesirable effect of absorbing reserves from the market at a time when the availability of credit should be increased."

The Victory bonds have risen almost 3 points above the pegged price of 100¼, and other government securities have advanced proportionately. The Treasury has reduced the interest rate on new offerings of certificates of indebtedness, the latest offerings being at 1⅛% instead of the 1¼% previously paid.

The return to a policy of fostering lower interest rates coincides with a return to deficit financing by the Federal Government. Indications are that the

(Continued on page 25)

Canadian Securities

By WILLIAM J. McKAY

Now that in the field of the foreign exchanges the tumult and the shouting has subsided a calmer appraisal of the post-devaluation scene is now possible. By all accounts the extent of the slash in the pound was totally unexpected, and many countries, including Canada, were taken unawares. If sterling had been devalued by only 20% as generally anticipated, a 10% adjustment of the Canadian dollar would be entirely logical especially as it would also have afforded a convenient opportunity to correct the hasty upward revaluation of July, 1946. With the drastic British cut of 30% however a Canadian adjustment of 15% would appear to be a more realistic realignment and would place the Canadian dollar in its traditional position midway between the U. S. dollar and the pound.

As it is, as far as foreign trade is concerned Canada in the post-devaluation period, starts with an export handicap of 20% in competition with those countries that faithfully followed the British example. It is doubtful also whether the 10% advantage in comparison with the U. S. dollar will be instrumental in expanding sales to this country to any important degree as Canada's staple exports here are already at a peak level. In certain instances moreover, Canadian exports are beginning to feel the impact of growing U. S. surpluses which tend to minimize dependence on Canadian sources of supply. It is also problematical whether the 10% differential will enable Canadian exports to compete successfully in many lines with those of this country.

In the equally important field of capital investment Canada's position following the 10% adjustment has not materially added to the attraction of investment north of the border. Since the devaluation the discount on free funds has increased only by approximately 5%, and Dominion internal bonds are cheaper only to the extent of 2%. Consequently the devaluation of the Canadian dollar has not improved the chances of an important new influx of capital funds.

Recent events also have served to throw into sharp relief the inadequacy of the free Canadian dollar market as a channel for the movement of U. S. investment funds. Particularly in the case of investment in Dominion internal bonds the narrowness of this market and its susceptibility to sharp fluctuations serve only to undermine investor confidence in a basically sound security. For example, the holders of the Dominion 3's of 1952, called for redemption Oct. 1 next and 4½'s of 1959 called for payment Nov. 1 were unable for the most part to take advantage of the attractive level of free funds prior to the devaluation owing to the absence of a market for funds for future deliveries.

It is now clearly apparent that the New York market for Canadian free funds is no longer sufficiently broad to sustain the existing volume of business, nor does it provide the stability that is desirable in order to attract new investment funds. Under present conditions the pressure of any heavy investment demand can drive the rate to the official level at which an unlimited supply is available. On the other hand heavy liquidation of internal bonds or large scale maturities or redemptions give rise to a one-way market in the opposite direction. On this side however there is no effective check in the shape of official control.

Greater protection has been given to the U. S. holder of Canadian internal bonds as a consequence of the recent restitution of the privilege of registration with the Foreign Exchange Control Board; at the time of purchase, bonds thus recorded can then be liquidated on the Canadian Government bond market. The proceeds, however, can only be sold on the narrow and widely fluctuating free market for Canadian funds in New York. There would appear therefore to be a strong case for the abolition of the unsatisfactory unofficial dollar market and for the institution of one rate for both commercial and financial transactions. A lower single exchange level would attract a sufficiently large volume of U. S. investment funds to offset Canada's chronic deficit on U. S./Canadian commercial account.

During the week the external section of the bond market was inactive but prices were well maintained. The internals likewise were strong on a small turnover. Free funds after initial weakness following the devaluation of the official dollar subsequently strengthened as a result of extreme scarcity of cash funds. Offerings for future delivery on the other hand encountered negligible demand. As a result of heavy liquidation from London of C.P.R.'s and Brazilian Tractions that were ultimately arbitraged in New York the corporate-arbitrage rate strengthened to 13%—12%. Stocks after earlier buoyancy in the golds, base-metals and Western Oils subsequently turned generally lower. The reaction in the golds was notably sharp on the announcement of official intention to allow the Gold-Mining Emergency Assistance Act to lapse at the end of the year.

Chicago Exch. Members

CHICAGO, ILL.—The Executive Committee of the Chicago Stock Exchange has elected to membership the following: Clair F. Cassell, President, C. F. Cassell & Co., Inc., Charlottesville, Va.; James J. McNulty, President, James J. McNulty & Co., Chicago, Ill.; Sherwood B. Davidge, Moore & Schley, New York, N. Y.; Erwin A. Steubner, Kidder, Peabody & Co., Chicago, Ill.

Mortgage Industry—No Longer a Free Agent

By HARRY R. TEMPLETON*

Vice-President, The Cleveland Trust Company

Commenting on developments in mortgage financing, Midwest banker points out tendency is to make such credit matter of welfare to which risk it not prime consideration, and therefore mortgage business for number of years past has not been a free agent exercising independent judgment as to quality of loans. Says there'll be really constructive job for mortage bankers when mortgage default period comes, when lenders should again assert their independence.

The subject before you is "Opportunities and Responsibilities" in the coming decade. But as our opportunities will depend greatly upon how well we take care of our responsibilities, let us first think of these. The most important one at this time is the preparation of ourselves and our portfolios for the next mortgage default period.

H. R. Templeton

Some believe there will never be such a period again for there are those who declare our "managed economy" has brought about a "new way of life" so that depressions and recessions will not occur.

In the 1920s, many of our real estate and mortgage people fancied the idea that we had reached "a new way of life and a new level of prices." But in the 1930s one of the worst depressions in real estate occurred.

Let's take a look at the conditions under which we have been making mortgage loans during the past number of years.

We have found it necessary to support our prosperity by deficit financing. By some magic formula we are to keep wages high and prices low, pay penalty taxes for the privilege of taking risks and still make provisions for the replacement of things that wear out. We are to maintain full employment at high wages—under rules laid down by theorists rather than by practical men of experience—or the government will.

Military expenditure, while undoubtedly necessary at this time, leave no continuing wealth to offset the debt created.

We are maintaining our export trade by loans and subsidies. We have supported the construction industry by making possible, through government guarantees, a great flood of mortgage money for home building as unprecedented terms and at low interest—by ignoring the principles of sound ownership and by government agencies conducting the greatest propaganda program of all times.

Mortgage Money Plentiful

While everything else has been in short supply, mortgage money has been plentiful. While everything else has been high in price, money has been low in cost.

When speculative price increased with demand; when contract building was entered into only under a cost-plus contract or a contract wth an escalator clause; when material prices increased without warning; when sub-contractors changed prices with what seemed unnecessary frequency and when labor insisted on wage negotiations and increases each year, money was either declining in cost or remaining stationary at a level lower than ever before.

This, however, did not prevent other parts of the construction industry from originating and supporting an effort to lower the already low interest rate and extend the term of repayment so that mortgage debt could be more easily carried. They called it "decreasing the cost of housing." Continuous effort has been exerted (and was successful) to increase the ratio of mortgage to price and thereby decrease the amount of down payment required to purchase a home.

Now this may be an unselfish desire on the part of some segments of the building industry to permit a greater number of our citizens, to share the pleasure of these lower interest rates on a greater amount of debt, or it could be an effort to increase sales by making it possible to sell higher priced houses to persons with smaller cash or asset accumulation. But mortgage bankers have been asked to accept a fixed return, for a period of 20 to 25 years, to cover their costs, overhead and profit, and this at a time when the construction industry questioned its ability to figure accurately its own costs, over-head and profits as of tomorrow.

We have been asked to believe that it is perfectly safe to make a full loan against a man's present income. But this would make it impossible for him to accumulate a nest egg against unknown contingencies. We have been importuned by speculative builders and badly-advised prospective borrowers to add overtime or problematical income from other activities, or the wages of a twenty-year-old bride to basic income to qualify a larger mortgage.

We have been asked to believe that there will be no period of unemployment, no illness of the wage-earner, no illness in his family causing heavy drain on his budget and no other upsets of any kind to disrupt his plans.

Miles Colean states it very well when he says "the tendency is to make credit a matter of welfare to which risk is not a prime consideration, rather than one of hard business in which risks must be calculated and terms set accordingly. In following the welfare approach, especially favorable lending terms are set up for special classes of borrowers, not in respect to their relative resources, but to their relative lack of them. . ."

In our own shop, we have endeavored to co-operate with the program to furnish housing for our returned veterans. While I have always disagreed with the wisdom of the Servicemen's Readjustment Act as applying to real estate, I have felt that it was something given to the veterans and that, as a mortgage lending institution, it was our obligation to assist them in every way possible. This assistance, to my mind, did not include making them loans that would be unwise for them. We may have erred in this respect on some of the loans made, but have tried to be conscious of our obligation.

Nor did we believe that assistance to the veteran included making loans where the sale was obviously to the benefit of the seller. Neither did we believe that assistance to the veteran included making loans not sufficiently good to be placed in our own portfolio. I refer, among others, to loans made with the sole intent of selling them to the FNMA and made, presumably, for the profit from the commission collected from the seller or the builder.

We have made Class 501 loans for 100% of the selling price, but these loans were for our own portfolio and any of them remaining unpaid are now in our portfolio. We made them when it was our belief that making the loan was to the benefit of the veteran and where the other factors including price and ability to carry the debt were favorable.

Independent Judgment Lacking

The mortgage finance industry has not been, for a number of years, a free agent exercising its independent judgment as to the quality of mortgage loans. Our mortgage practices have been increasingly influenced by the welfare approach and it my belief that therefore the goodness of the portfolio has been diluted, and future problems have been multiplied.

If these are facts, and I believe them to be, then we must be diligent about putting our portfolios in the best condition possible. Now is the time either to cure the "chronic delinquent" and the "chronic late payer" or remove his loan from your portfolio. Some day you will need all the time you have to give to your duties—full time plus many extra hours, assisting worthy borrowers who are the victims of a recession or depression; through no direct fault of theirs, but responsible for the fact that they cannot pay their agreed payments according to schedule.

So today, while we can, we must service our loans, educate our borrowers to pay on due dates and weed out our "chronics" so that we may do a really constructive job of loan service when that mortgage default period arrives.

We believe that one of the responsibilities of the "next decade," in connection with our conventional loans, where the decision is our own, will be to adjust our payments to meet the "then" ability of the borrower.

In regard to insured and guaranteed loans, it is our hope that those agencies are preparing a program that will permit prompt adjustment of payment requirements if necessary, and that too much delay will not occur in putting such a program into effect.

I have used the word "permit." I have not used the word "require" or any word of similar sense which might be construed as a mandate. This program should be permissive and not mandatory. The mortgagee is in the best position to judge the circumstances of the borrowers and to determine the necessity and amount of the deferment.

Speed in putting into effect a payment adjustment, when necessary, is of great importance. It should be worked out so that there is no default and that adjusted payments continue without interruption. An uninterrupted payment program, adjusted to meet the "then" ability of the borrower, will in most cases, cause him to retain faith in his property, to continue his payments, and will materially decrease the possibility of foreclosure.

A reduction in foreclosures will keep many properties off the mar-

(Continued on page 19)

*An address by Mr. Templeton before the Mortgage Bankers Association, Chicago, Ill., Sept. 21, 1949.

NSTA Notes

SECURITIES TRADERS ASSOCIATION OF DETROIT, MICH.

A joint meeting of the board of directors for 1949, the newly elected directors for 1950, and all past Presidents of the Securities Traders Association of Detroit and Michigan, Inc., was held at The Olde Wayne Club at noon Monday, Sept. 12, 1949.




Charles C. Bechtel George J. Elder Edward J. Miller H. Schollenberger

The meeting was presided over by President H. Terry Snowday, E. H. Rollins & Sons, and the following officers were elected for the coming year:

President—Charles C. Bechtel of Watling, Lerchen & Co.
Vice-President—George J. Elder of George A. McDowell & Co.
Treasurer—Ed. Miller of Andrew C. Reid & Co.
Secretary—Herbert Schollenberger of Campbell, McCarty & Co.

Harry B. Buckel of Carr & Co. was appointed Chairman of the Program Committee, and George Reuter of Baker, Simonds & Co., Chairman of the Membership Committee.

A very enjoyable lunch was served, spiced by frequent criticisms, both constructive and otherwise, by some of the past Presidents.

NATIONAL SECURITY TRADERS ASSOCIATION, INC.

The National Security Traders Association announces that **Convention registrants not riding the Special Train** but who are going direct to Denver should notify Phillip J. Clark of Amos C. Sudler & Co., Denver, to insure reservations for "A Day in Denver." Such registrants must also advise Larry A. Higgins of Hulburd, Warren & Chandler, Chicago, if they wish to board the Special Train from Denver to Colorado Springs.

It is understood that the temperature during the day will be in the 70s and a light topcoat is necessary for evening use. Sports clothes will be in order and cowboy outfits, dungarees, etc., will be suitable for the steak fry on Thursday night. The dinner party on Saturday evening is informal, however the ladies may dress as they desire.

The "Bathing Suit Review" scheduled for Saturday at 3:00 p.m. will be under the direction of Donald C. Sloan of Sloan & Wilcox, Portland, Ore. Several 1890 vintage suits, furnished by the Jantzen Company, will be available, but everyone is invited to participate and bring their own suits.

Led by Charles G. Scheuer of Scheuer & Co., Chicago, a bowling tournament will be held offering prizes for the winners. All affiliates have been notified of this contest and several teams have been entered. A limited number of bowling shoes will be available, however please bring your own if possible.

A very special event is scheduled and entrants should communicate with Stanley Rogenburg of Rogenburg & Co., New York for tickets or they can obtain tickets from Arthur Sacco of Detmer & Co., Chicago, or Samuel K. Phillips, Jr., of Samuel K. Phillips & Co., in Philadelphia. While a few sets of golf clubs may be rented, entrants are urged to bring their own clubs if possible. Handicaps will be accepted under oath.

All past officers and members of the Executive Council will be expected to attend the breakfast on Thursday morning at 8:00 a.m

COMING EVENTS

In Investment Field

Sept. 30, 1949 (Pittsburgh, Pa.)
Bond Club of Pittsburgh Fall Outing at Chartiers Country Club

Oct. 5-9, 1949 (Colorado Springs, Colo.)
National Security Traders Association Annual Convention at The Broadmoor Hotel.

Oct. 11-13, 1949 (Atlantic City, N. J.)
Fall meeting of the Board of Governors of the Association of Stock Exchange Firms at Haddon Hall.

Oct. 12, 1949 (Dallas, Tex.)
Dallas Bond Club Annual Fall Field Day at Northwood Country Club.

Oct. 20, 1949 (St. Louis, Mo.)
Annual meeting and election of officers of Security Traders Club of St. Louis.

Dec. 4-9, 1949 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Dec. 9, 1949 (New York City)
New York Security Dealers Association 24th Annual Dinner at the Hotel Pierre Grand Ballroom

With Waddell & Reed

(Special to The Financial Chronicle)

HAINES CITY, Fla. — Charles M. Burnett is with Waddell & Reed, Inc.

With Edward D. Jones Co.

(Special to The Financial Chronicle)

BELLEVILLE, Ill. — Herschel P. Denton, Jr. is now with Edward D. Jones & Co., St. Louis.

With Perkins & Co.

(Special to The Financial Chronicle)

BOSTON, MASS. — Alfred A. Wuorela is with Perkins & Co., 31 Milk Street.

Role of Government in Housing

By RAYMOND M. FOLEY*

Housing and Home Finance Administrator

Denying Federal housing legislation is threat to private enterprise, Mr. Foley says real threat is shortsightedness and opportunism of sections of home building industry. Urges private industry cooperate with Federal Housing Administration. Predicts housing costs will come down and urges most liberal mortgage financing terms in lower price field.

In discussing the assigned topic "The Role of the Government," I am particularly glad to be afforded the opportunity of expressing, at this time, some views of my own and of the Housing and Home Finance Agency. In the past few years we have seen significant developments in housing finance and production. We have observed a fairly rapid crystallizing of action and opinion out of the flux of conditions, experiments and experience of the past decade. We have come through a period of high controversy, especially on legislative issues, fundamentally based upon the determination of a national policy with reference to housing.

Raymond M. Foley

That issue has been met and decided by the Congress in the passage of Public Law 171. Over the years there were a variety of controversial issues in the legislative proposals that made up so-called comprehensive legislation. One of them was the proposal for a peace-time permanent over-all agency on housing. That was separately settled when the Housing and Home Finance Agency was established. There was grave apprehension voiced by some spokesmen of the industry that such a plan would result in a dictatorship — a tyranny over the varied elements of the homebuilding industry, of which you are one.

I declared then that the industry was seeing ghosts. Events have proved I was right. The over-all housing agency has worked successfully in the interest of the whole public, and it intends to continue doing so.

No Threat to Private Enterprise

There was tremendous concern over public low-rent housing proposals and over slum-clearance and research proposals.

These, too, were painted in blackest shades as a looming threat over private enterprise. Out of fifteen years of close-range experience in responsible capacities with the problems involved—social, economic, financial, physical and governmental, I testified repeatedly before the public and before Congress that these fears, too, were unfounded. I believe they are so today and will remain so—unless we are ready to assume that private enterprise has lost its resourcefulness and virility and is unwilling to take a long-range view of its opportunity and both a long-range and short-range view of its responsibility. The real threat to private enterprise in the housing industry is not in Public Law 171, nor in the interpretation of their task that may be adopted by its administrators.

The real threat is to be found in shortsightedness and opportunism on the part of some of the homebuilding industry's practitioners. How many of you have made a study of Public Law 171 for yourselves individually rather than accepting its appraisal by someone else? Those of you who know the law, its history and background, know there is one chief basic reason why it is on the statute books of the Nation. That reason is that decent housing has too generally cost too much for the incomes of a great proportion of our people. I don't mean just shelter. I mean decent housing in the modern American sense. If such housing were practicably available for all, there would have been no need for enactment of the law. That is the basis of the Declaration of National Housing Policy in the law. It is the basis of the research provision. It is the reason for enactment of such devices as the public low-rent housing and slum-clearance provisions.

Important as low-rent housing and slum clearance are, in the long run the most important parts of the law, in results achieved, may well be the declaration of policy and the research provisions.

As men responsible for billions of private money lending on the basic security of America — its homes—I recommend that you, individually, study all its provisions—but especially those two. You will find in them, I think, the vital challenge to you and to all others in related housing fields. You will find in them also

(Continued on page 32)

*An address by Mr. Foley before the Mortgage Bankers Association, Chicago, Ill., Sept. 21, 1949.

Dollar Gap and United States Private Investment Abroad

By PAUL EINZIG

Dr. Einzig contends U. S. private investment abroad is not likely to play substantial role in closing dollar gap, since American investors are conscious of political risk in Europe and Asia. Cites unwillingness of private investment to compete with government operated enterprises, but sees remote possibility of joint American-British exploitation of Africa's resources.

LONDON, ENG.—One of the most widely advertised "achievements" of the Washington financial talks has been the understanding reached on the encouragement of American private investment in Britain and the sterling area. The subcommittee appointed for the examination of this question was the first to produce its report which, accordingly, received wide publicity. Yet on closer examination it appears that no early relief and relatively little long - range relief can reasonably be expected from this agreement.

Dr. Paul Einzig

Beyond doubt, the principle of encouraging the investment of American private capital abroad is important. Judging by the attitude of Congress, the American taxpayer is becoming increasingly reluctant to finance the American export surplus. Between the two wars it was the American investor who financed it to the extent of many billions of dollars, much of it has become irretrievably lost. From the point of view of the national wealth of the United States it makes no difference whether the dollars needed for the financing of the "dollar gap" are provided by the American taxpayer or by the American investor. So long as the United States continues to have an export surplus somebody has to finance it, and it would be a great relief to the Administration and Congress alike if the private investor relieved them of a large part of the unpopular burden of providing the means of filling the "dollar gap."

To imagine, however, that the American private investor will embark on large scale foreign investment, comparable with that of the 'twenties, would be sheer wishful thinking. Possibly American private capital might flow, in moderate streams, into Canada and some of the "soundest" Latin American countries. It is not likely to flow to any substantial extent to countries outside the Western Hemisphere. American investors are likely to remain conscious of the political risk that undoubtedly exists in Europe, Asia and Australia. That factor alone is likely to reduce the flow of American private capital to little more than a mere trickle, unless some guarantee is devised to insure the investors against the risk of Communist invasion or infiltration. No such guarantee is envisaged in the official statements issued at Washington. The safeguards against nationalization, discrimination and exchange restrictions, specifically mentioned in the statements, are no innovations. They were included in the Marshall Aid Pact. And yet American private capital and enterprise has so far failed to make use of the guarantee facilities under those Pacts, even to the extent of the moderate limit fixed for the purpose.

Possibly, individual American business firms, keen on securing certain markets or raw material resources, might be willing to assume the political risk involved by investing capital in countries which are under the shadow of Communist menace. But it would be idle to expect a flow of American money, running into billions of dollars per annum, to Europe, Asia or Australia. The only continent on the Eastern Hemisphere which might attract American private capital on a large scale is Africa, so long as it remains relatively immune of political risk. It is, in fact, the British Colonies in Africa which are mainly in the minds of most people in London when they think of the possibility of solving the dollar problem with the aid of American private investment abroad.

Unfortunately even in this respect, there can be no hope of immediate relief on a large scale. It is likely to take years before the possibilities are adequately explored and practical plans are completed. Africa is still the least known continent, and a careful study of the possibilities must precede any concrete transactions. The failure of the British Government's £20,000,000 ground-nut scheme in East Africa should serve as a warning against rushing into Africa without an adequate study of all the factors involved. Taking a long view, it is essential that American capital and enterprise should not become discouraged by such failures. From that point of view, undue haste would be deplorable. Even though it would provide much-needed dollars to the Sterling Area at a comparatively early date, but only at the risk of a cessation of the flow of dollars as a result of setbacks.

In any case the guarantees to be offered must be much more specific than those foreshadowed in the preliminary statements, before American business men and investors are likely to be attracted. They are not likely to be satisfied with vague assurances of non-discrimination. British business men recently returning from the United States have the impression that American business men are fully alive to the disadvantages which private enterprise has to face in a country where the Government is engaged in business activities. They know that nationalization or discrimination in favor of British capital and enterprise are not the only threats against which they have to safeguard themselves. Before investing their capital they will want to ensure that they will not be victimized through an unfair allocation of priorities regarding transport facilities, raw material and labor resources controlled by the Government. British Conservative criticisms of the East African ground-nut scheme, claiming that the Labor Government has diverted from private enterprise, transport and other facilities, for the sake of ensuring the success of the Government-controlled enterprise, have been noted in American circles that are likely to be interested in investment in Africa. Without being able to judge how far such criticisms are justified, they are likely to wish to be on the safe side by safeguarding themselves against victimization before risking their dollars. Which is as it should be. It would be fatal if long-range prospects of American investment in the Sterling Area were to be sacrificed for the sake of immediate relief, by attracting investment, the success of which is not adequately assured.

In practice an effective application of the principle of non-discrimination would work out as an actual discrimination in favor of American enterprise compared with British private enterprise. This is what has already happened in respect of the nationalization of the British iron and steel industry. The Ford Works of Dagenham have been exempted from nationalization even though British works belonging to the same category were included in the scheme. Should the same principle be applied more widely to American capital in Africa and elsewhere, it seems probable that British business will seek the partnership of American business as an insurance against being placed at a disadvantage. A joint American-British exploitation of Africa's resources would indeed be a good solution. Should it be resorted to, the right thing wold be happening once more for the wrong reason.

Such developments are bound to be slow, however and it is impossible to foresee at the present stage, the pace and extent to which the flow of American capital will contribute towards the solution of the dollar problem. It is at best a most uncertain factor, and it would be a mistake to rely on it unduly even as a long-range solution and to neglect other possible measures in the hope that the flow of private capital would fill this gap.

Thos. Graham Heads Sinking Fund Comm.

LOUISVILLE, KY.—At the regular meeting of the Sinking Fund Commissioners held at the City Hall Annex on Sept. 21, 1949 Thomas Graham, President of The Bankers Bond Co., was elected President of the Sinking Fund Commission of the city of Louisville, succeeding Wilbur C. Fisher, Vice-President of the Liberty National Bank & Trust Company.

Thomas Graham

The Sinking Fund Commissioners are, in addition to the above, E. L. Gorman, who was elected Vice-President of the Commission and who is a director of the Stock Yards Bank, President of the Bourbon Stock Yards and Vice-President of Emmart Packing Company; Charles P. Farnsley, Mayor; and Dann Byck, President of Byck Bros. & Co. and President of the Board of Aldermen of Louisville.

Campbell, McCarty Adds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Horace C. Brittain is with Campbell, McCarty & Co., Inc., Buhl Bldg., members of the Detroit Stock Exchange.

With Standard Investment

(Special to THE FINANCIAL CHRONICLE)

PASADENA, CALIF. — Arthur E. Smith has joined the staff of Standard Investment Co. of California, 117 East Colorado Street.

With Walter C. Davis

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Norman L. Choate is associated with Walter C. Davis, 161 Devonshire Street.

International Monetary Fund Analyzes International Payments Problem

Camille Gutt, the organization's executive manager, in Annual Report to the Board of Governors, concludes constructive solution to the problem requires deficit countries to do all they can to make more of their output available for export and offer it at prices which will compete in dollar markets. Says problem cannot be met by further restrictions and discriminations.

The problem of international payments is discussed freely in the opening chapter of the Annual Report of the International Monetary Fund covering the year ended April 30, 1949, and submitted by Camille Gutt, Chairman of the Executive Board to the Board of Governors on July 15, but which was only made public on Sept. 13 at the Annual Meeting of the Fund being held in Washington.

Camille Gutt

The full text of this chapter is printed below:

The International Payments Problem

The unbalanced conditions which have characterized the world economic situation since the end of the war still prevail. In many countries there remains a striking discrepancy between demand and productive capacity, and an even greater discrepancy between need for imports and capacity to pay for them. Until effective measures are taken to meet these closely related problems, there can be little hope of achieving the expansion of world trade on a multilateral basis, which is one of the Fund's objectives.

Even before the war, international economic relations had become excessively restrictive. In many instances the maintenance of a precarious balance in international payments depended largely upon the support of high tariffs, import restrictions, and exchange controls. The war added the even greater difficulties arising from destruction and disruption, the loss of overseas resources, and the rupture of long-established trade connections. Moreover, in many countries, the urgency of the international payments problem was overshadowed by the inadequacy of postwar production to meet greatly increased needs. Nearly everywhere, the problem was accentuated by monetary policies which encouraged relatively excessive consumption and investment.

The difficulties of the postwar period are greater than foreseen at the time of the Bretton Woods Conference. That is all the more reason for the Fund and its members to make special efforts to ensure that these times of change and adjustment are marked by progress toward the purposes for which the Fund was established. In many countries directly affected by the war, great efforts have been made to restore and to increase productive capacity. Foreign aid generously given has made it possible for them, by supplementing their own resources with imports, to undertake large-scale reconstruction and development. In other countries substantial progress has been made without much external assistance. The effects of these measures on production and trade are now beginning to be clearly seen.

The immediate task of the postwar period was to restore production and productive efficiency in the countries whose economies were devastated and disrupted by the war. The most urgent task today is to establish better trade and payments relations. The resources made available through increased production and disinflated home demand must now be used to increase exports to earn the means to pay for imports. This has to be done on the basis of efficiency and economy in providing export goods at competitive prices.

Expansion of international trade on a multilateral basis can contribute to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all countries. In fact, however, dependence on bilateral trade and inconvertible currencies is far greater now than before the war. Unless positive steps are taken to secure a better balance in international payments, such restrictions may be intensified as foreign aid declines, resulting in a shrinkage and further distortion of world trade.

Progress in Production

In the immediate postwar period, the restoration of both internal stability and external balance was hampered in many countries by the temporary inadequacy of production. The years since the end of the war have seen some notable achievements in the expansion of output. The progress noted in last year's Annual Report was generally continued in 1948 and in the first half of 1949.

In most European countries, wartime damage to basic productive equipment has been repaired, and the working stocks required for a smoothly operating economy have been largely restored. The effects of the extensive postwar programs of investment are gradually becoming apparent. In nearly all of Europe industrial production is now considerably above the 1937 level. Agricultural production, on the other hand, in parts of Europe and the Middle East is still below that of prewar years, and the difficulties thus created are especially acute where there has been a rapid growth of population.

In some areas which labor under unusual difficulties, even the preliminary task of restoring production and productive efficiency has only begun. The economies of Germany and Japan, for example, were to a large extent undermined and destroyed by the war; and though rapid progress has been made in Western Germany in the last 12 months, production is still well below prewar. A large part of the Far East has been troubled by civil conflict, and the economic consequences of these disturbances affect the whole world.

Not only in the areas disrupted by the war is an expanding volume of production essential for a better balanced world economy. The maintenance and expansion of production in the areas not disrupted by the war are no less important. Most of the countries whose production was actively stimulated by wartime demands have since been able to maintain a high level of economic activity. In the United States and Canada, in particular, industrial employment and production in 1948 were at record peacetime levels. In the first half of 1949, however, some falling off in industrial production in the United States has been apparent. The effects are already being felt by other countries.

As productive efficiency reaches and exceeds the prewar level, the pace of any further expansion of production is likely to be slower, depending on the maintenance of investment and the wider application of the most efficient tech-

(Continued on page 37)

Has Dollar Replaced Sterling As International Unit?

By WILLIAM ADAMS BROWN, JR.*
Brookings Institution, Washington, D. C.

Dr. Brown reviews international monetary developments following Britain's abandonment of gold standard in 1931, and ascribes confusion of this era to loss of stable international monetary unit represented by the pound sterling. Says dollar does not function as sterling formerly did, and contends no effective international monetary system can be established until dollar performs role corresponding to that of sterling before 1914.

The year 1931 has special significance because it was the year in which an illusion was destroyed, namely, the illusion that the prewar gold standard system had at any time been returned to. Since there was no single predominant international currency the successful functioning of the international gold standard system of 1924-1931 depended on the maintenance of exchange stability between certain major or "key" currencies in particular the pound and the dollar. When the United Kingdom left the gold standard in September, 1931 the central nucleus provided by a stable sterling-dollar rate was broken up. Once more countries had to choose between following the lead of sterling or that of the dollar. Once more the sterling area became visible on the exchange map of the world, but this time it was a smaller area. A sort of orderly confusion appeared in the exchanges of the world. In all about 30 countries left the gold standard between 1929 and 1933. Some 13 of these could be classified as sterling countries. Some 20 countries could still be classified as gold countries but it was a characteristic of the time that foreign exchange controls were freely used both by countries remaining on the gold standard in some form and by those that had left the gold standard.

I can not of course go into the vicissitudes of this period but I should like to recall that from Dec. 31 to April, 1932, the United States was obliged in its turn to conduct a defense of the gold standard because of substantial gold drains particularly to France. President Hoover once described this episode as a defense of the "Gibraltar of World stability." In 1933, in April, however, the United States, under a new administration, took the voluntary step of abandoning the gold standard as part of a general policy of raising domestic prices. We all recall that an effort to reach some international agreement on a stabilization policy and on other methods of international economic co-operation to stem the depression was made at the London Conference of 1933 and that it ended in failure. I will not add to the many post-mortems on this conference but I would like to recall that it was followed by three official pronouncements which confirmed the breakup of the world foreign exchange system into three currency blocs. On July 3, 1933 the President of the United States declared that the United States would not be diverted from its policy of raising prices by any attempts at currency stabilization. France, Netherlands, Italy, Belgium, Switzerland and Poland shortly after jointly declared their determination to cling to the gold standard and a British Empire Currency Declaration was also issued proclaiming the importance of inter-Imperial stability of exchange rates. For nearly a year then a three-cornered adjustment took place between the sterling group, the dollar group and the gold bloc. And this continued until the United States returned to a form of gold standard in April, 1934. The rate chosen was such as to exercise a prolonged deflationary pressure on the gold bloc countries which finally resulted in a realignment of the major exchange rates in 1936. It is noteworthy that after this long period of fluctuating exchanges the central exchange rates of 1936 were not very different from what they were in 1931.

Significance of Period

There are several points about this period that seem to me to have great significance for present day thinking on gold as an international monetary standard. As a measure of the appreciation or depreciation of currencies gold from 1919 to 1924 was identified with the American dollar. From 1925 to 1931 it regained its prewar significance as a general international standard. From September, 1931 to March, 1933 it was identified with a currency system including both the dollar and the French franc. From March, 1933 to February, 1934 it was identified with a currency system composed only of a small gold bloc built around the French franc. After February, 1934 it was once more identified with a general international system but one in which the position of the former gold bloc had become indefensable. What shall we say of a standard which displays characteristics of this kind? I think that the cult of the great God Par has not survived this experience. Under the International Monetary Fund we are now committed to seek by international agreement a set of equilibrium exchange rates. It is now abundantly clear that fluctuations in any important rate are of great concern to many other countries. In seeking to work out such a system it is technically convenient, if not really obligatory, to select one strong currency as a point of reference, to define it as a weight of gold, and to make such necessary adjustments as are decided upon by changing the relationships of other currencies to this single currency. In this sense we may now speak of parity with gold, but I believe that we do so for different reasons than was the case before the experience I have just described.

There is another feature of the 1931 to 1936 experience that bears directly on gold as a monetary standard. It was during the years following 1934 that United States attracted gold from the rest of the world in such quantities as to deprive the gold reserve of our central banking system of any real significance as a guide to credit policy. Professor Whittesley has well named this great gold influx "the golden avalanche." It was a complex phenomenon and on the whole can be explained more largely in terms of capital flight than in terms of unbalanced trade. But whatever its explanation it meant that gold as a limiting factor on American credit expansion had disappeared for our lifetime.

With the outbreak of the Second World War the world passed into a system of generalized exchange control for the first time,

(Continued on page 38)

*Extracted from an address by Dr. Brown before the Economic History Association, Rutgers University, New Brunswick, N. J., Sept. 9, 1949.

The Basis of Federal Reserve Policy

By KARL R. BOPP*
Vice-President, Federal Reserve Bank of Philadelphia

Federal Reserve Bank official describes purposes of Federal Reserve System, the tools it uses in its work, the policy guides it follows, and how its decisions are made. Discusses recent actions and decisions of Federal Reserve Board. Stresses board members' responsibility for exercising judgment in field of banking and credit, but concludes "views expressed outside of official circles have not been without influence on what has been done."

When observers write and talk about what the Federal Reserve System does, they usually substitute the sophisticated word "policy" for the common word "work." Since the two words really mean the same thing, I suggest we talk about the work of the Federal Reserve System.

Karl R. Bopp

There are several things we would like to know: (1) What is the general purpose of the System?; (2) What tools does it use?; (3) What guides does it follow?; (4) What specifically has the System been doing recently?; (5) How are decisions made?

I.

What Is the General Purpose of the System?

The Federal Reserve System was created in 1913 primarily to furnish an elastic currency and thus prevent the recurrent money panics and periods of credit stringency which had characterized the virile but somewhat over-exuberant American banking system during the previous 50 years. The Federal Reserve Act also sought to tie the multitude of individual banks together and provide for a measure of coordination and cooperation among them by erecting a superstructure consisting of 12 regional Reserve Banks which were, in turn, tied together by the Federal Reserve Board in Washington. System authorities were directed to use what was considered their most important power—that to fix discount rates—"with a view of accommodating commerce and business." The exact meaning of these words has been adapted to changing circumstances in the 35 years that the System has been in existence. This should occasion no surprise, especially when one recalls that these years have included two world wars and the world's greatest depression.

At present most people probably would agree with a statement of the Board of Governors "that the implicit, predominant purpose of Federal Reserve policy is to contribute, in so far as the limitations of monetary and credit policy permit, to an economic environment favorable to the highest possible degree of sustained production and employment." As one moves to more specific programs of action to achieve this objective, however, he inevitably encounters differences of opinion. Some say the System can best achieve the general purpose by directing its efforts to stabilizing a specific price level; others say, to promoting conditions of full employment; still others, to adhering to a more or less passive role, and so on.

One of the most important continuing problems facing the Reserve officials is to choose among, to reconcile, or to combine such specific objectives. This is easy when the same action is indicated to achieve all possible objectives; but that happy combination rarely occurs in real life. Need for judgment arises as soon as promotion of one objective appears possible only at the expense of promoting another.

I should like to mention a few difficult periods of decision, not to praise or blame the System, but to indicate the necessity for judgment. An understanding of these conflicts will help you to a more complete understanding of the System.

The first major conflict arose in connection with financing the first World War. The Board expressed the problem in these words:

"Banking expansion, it may be admitted, is an unavoidable incident of war finance, but every effort should nevertheless be made to counteract it as far as possible by limiting banking credit not clearly needed for the purpose of producing or carrying goods necessary for the life of a Nation at war. Goods and credit must be saved to the utmost of our ability in order to check the upward movement of prices and in order to free for the use of the Government the goods and savings required for the winning of the war."

Another conflict developed during the new era of the 1920's when various economic forces began to move seriously in different directions. The Board expressed this conflict as follows:

"The problem was to find suitable means by which the growing volume of security credit could be brought under orderly restraint without occasioning avoidable pressure on commercial credit and business. With the system portfolio of Government securities practically exhausted by the sales made in the first half of the year 1928, the main reliance in a further firming of money conditions must have been further marking up of Federal Reserve discount rates, unless some other expedient could be brought to bear in the situation."

It was this experience with the great bull market of 1929 that resulted in the introduction of selective instruments of credit control; namely, those over margins on security loans.

The most recent conflict, like the first, arose out of war financing. In the Federal Reserve Bulletin for October, 1948, the major two-fold objective is described like this: ". . . as much restraint on monetary and credit expansion as was consistent with maintenance of orderly and stable conditions in the market for Government securities." You are familiar with the extended discussions as to the relative importance of the two objectives and as to the Board's request for additional authority to resolve the dilemma.

This experience shows that a program of action must be designed to meet the needs of a given situation. Some students recommend that the System give absolute priority to a single objective and forget about the rest; but they have not agreed on which specific objective should be given the high honor. Practicing central bankers rarely if ever take this all-or-nothing approach. They attempt to reconcile objectives—even those that appear irreconcilable on strictly logical grounds. Selective instruments have been developed as a means of escaping some of the dilemmas that arise when choosing objectives. Another alternative to the all-or-nothing approach is to combine objective so as to achieve each in part though perhaps none entirely.

II.

What Tools Does the System Use?

Once objectives have been determined, the problem narrows down to ways and means of accomplishing them. The System attempts to achieve its objectives primarily by influencing the amount, availability, and cost of money. The most important machinery for exercising such influence is through the reserves of

(Continued on page 30)

*An address by Mr. Bopp before the Federal Reserve Forum, Minneapolis, Minn., Sept. 15, 1949.

Toward Economic Stability

By HOWARD R. BOWEN*

Dean, College of Commerce and Business Administration, University of Illinois

Asserting we have today a more stable economy than generation ago and one less vulnerable to depression, Dean Bowen stresses value of economic knowledge, along with technical capacity acquired by government to develop an informed, coherent and rational economic policy. Denies inflation is overriding danger.

At a time when the great business boom of 1942-49 appears to be subsiding, we may well consider the long-range prospects for our economy. Are we likely to revert to the overwhelming business fluctuations of the past? Or may we reasonably look forward to greater economic stability than we have experienced before?

Howard R. Bowen

In seeking answers to these questions, we must take into account the profound changes in the structure of our society, and in our thinking, that have occurred during the past 20 years. We must consider how these changes may have influenced the stability or instability of our economy.

In my judgment, we have today a more stable economy than we had a generation ago—an economy that will be less vulnerable to depression and more resilient in recovery.

The Growth of Knowledge and Experience

This potential stability that has been built into our economy derives primarily from the knowledge and experience we have gained since the fateful year of 1929, in meeting the vicissitudes of depression, war and inflation.

Under the impact of the problems faced during this period, the science of economics has developed at an almost unprecedented rate. We have today a far more effective intellectual equipment to guide private and public economic policy than was available a generation ago. Though economists are far from satisfied with their accomplishments and many problems remain, the advances in economics are in some ways comparable with the more spectacular advances in the physical sciences.

Similarly, great strides have been made in the accumulation of reliable and timely factual information about the economy and its behavior. To realize this, one need only compare the wealth of statistical data at our disposal with that available in the 'twenties. Particular mention should be made of the statistics on national product and national income which provide a sort of bookkeeping system for the total economy that is useful in precisely the same way that accounting records are useful to private business firms.

Certain vast experiences or experiments during the past 20 years have left an indelible imprint on the minds of most people—not only on the minds of our political, business and intellectual leaders, but also of the public at large. The first of these was the colossal failure of the kind of economy we had in the 1920s to maintain economic stability. Though the economy of that day was free from detailed governmental controls, was without serious labor disturbances, and was subject to only the mildest kind of taxation, it was nevertheless vulnerable to deep and devastating depression. Rightly or wrongly, the disastrous experience of the early 1930s gave rise to profound and widespread skepticism about the beneficence of extreme laissez faire as a form of economic organization, and led many people in all stations of life to consider the possibility that government might well play a more active role in economic affairs. Second, our leaders and the public at large have witnessed the fact that government spending—if pursued on the grand scale—can overcome depression and produce full employment and prosperity. This was seen in Italy and Germany during the rise of Fascism and Naziism, in various Scandinavian countries and, during the late war, in the United States. Third, as a result of experience, our people are much less frightened of a national debt than they were formerly. Though the debt is a subject of great concern and interest, and many people are surprised that it can be so large without financial degeneracy, yet they have clearly seen the national debt pass $50 billion, $100 billion, and even $250 billion, while the credit of the United States has remained unimpaired and the dollar has continue to be the world's strongest and most coveted currency.

The great development of mass media of communication and the change in the character of the daily stream of news, information, analysis and comment have also strongly influenced the thinking of our age. These agencies include the radio with its frequent news, its commentators, and its political speeches; the news magazines, most of which have come relatively recently on the scene; the many business "services" which inform their clientele on economic and political affairs; the improved and enlarged news coverage of our daily papers; and the newspaper analysis—the Walter Lippmann's and the Dorothy Thompson's. The educational influence of all this has been and is enormous.

As a result of the developments in economic science and in statistics, through the sheer experience of living through depression, war and inflation, by observing great economic experiments at home and abroad, and because of the improvements in the communication of ideas through mass media, we are today a much wiser, better informed and more sophisticated people than we were a generation ago. We are far more literate in economics and politics. This applies to our professional economists, to our statesmen, to our leaders of labor and industry, and to the rank and file of people everywhere. This is a factor of the first order in making our economic system more stable. The increase in knowledge and experience means both that we are technically able to formulate and carry out public and private policies in the interests of stability and that the general public is receptive to such policies and will actively support them.

The attitude of the public is particularly important. Today one can scarcely doubt that our people are aware of the problems of economic instability and regard the government as the agency which has responsibility for maintaining economic stability. No longer will it be possible to turn 10 or 15 millions of people out of their jobs and explain to them that their plight is due to an act of Providence or to unfortunate miscalculations in the private investment market. They will expect prompt action from their government, and any government which fails to meet the situation will be asking for its own repudiation.

Tangible Results of Increased Knowledge and Experience

There are several tangible and practical results of the experience and knowledge gained over the past 20 eventful years. First, and perhaps most obvious, is the moderation displayed during the current boom. There is no doubt that we have been and are in one of the great booms of history. But the behavior of businessmen, of investors and of consumers generally has differed greatly from that in comparable earlier booms. There has been less speculation, less overbuying, and less splurging. People have entertained healthy doubts about the indefinite continuation of the boom. There has been little talk about a "New Era" and much consideration of a possible depression. In the stock market, no amount of fabulous earnings has been sufficient to stir up bullish enthusiasm. On the whole, this has been the soberest boom on record. That fact has been an important factor in sustaining the boom, because excesses have been avoided, speculative losses have been minimized and the government has been called on, as in the past, to repress the boom by drastically curtailing credit.

Another tangible result of the experience gained and the new attitudes derived therefrom is an increasing tendency for businessmen, labor leaders and farm leaders to consider the social interest in their private policies and decisions. This does not mean that the millennium has arrived or that altruism has replaced self-interest. Nevertheless, businessmen have shown increasing interest in enlightened personnel policies, community relations, employment stabilization and moderate price policies. Similarly, labor leaders and farm leaders are increasingly responsive to the social interest and frequently consider social consequences and total economic effects in the formulation of their policies.

A third tangible result of the changes referred to is that the general public is highly sensitive to the problem of economic fluctuations and would look to government to promote or guarantee economic stability. Particularly in the event of a depression, the public would demand vigorous leadership and positive action from government.

Finally, a fourth result of the increase in our knowledge is that it is now technically possible for government to meet the public demand for economic stabilization with an informed, coherent and rational economic policy. With the development of modern economics, with our wealth of statistical knowledge, and with the experience gained at home and abroad, such a policy is more nearly feasible today than ever before. The President's Council

(Continued on page 39)

*Reprinted from "Current Economic Comment," published by the Bureau of Economic & Business Research, College of Commerce, University of Illinois, August, 1949.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Harvey D. Gibson, President of **Manufacturers Trust Company, New York,** announces that William G. Rabe, Vice-President and director, has been elected a member of the bank's general administrative board.

Mr. Rabe joined Manufacturers Trust Company in January, 1931, as Assistant to the President. He was made a Vice-President in December, 1931, and a director of the bank in 1947.

* * *

John R. McGinley 2nd has been named Vice-President in the trust department of **Marine Midland Trust Co. of New York,** it was reported in the New York "Herald-Tribune" of Sept. 22.

* * *

George J. Ruska, an Assistant Treasurer of **Bankers Trust Co. of New York** and former mid-western banker, died on Sept. 17 at the Lawrence Hospital in Bronxville. Mr. Ruska, who had been with Bankers Trust Co. since 1945, had previously been an Assistant Vice-President of the Citizens Commercial and Savings Bank at Flint, Mich. Born in 1904, he began his banking career at the Continental Illinois National Bank and Trust Co. of Chicago in 1919. He went from there to First National Bank of South Bend, Ind., and later served with the Guardian National Bank of Commerce in Detroit, and the Union and Peoples National Bank of Jackson, Mich.

* * *

Martin Nichols has been elected Assistant Treasurer of the **National Savings Bank of Albany, N. Y.,** it was announced by the Board of Trustees on Sept. 12, it is learned from the Albany "Times Union" which reports:

"Mr. Nichols has been with the bank 27 years. He started as a clerk in 1922 and since has held the positions of teller, head teller and new accounts clerk."

* * *

Ralph O. Frank, 57, Vice-President of the **United States Trust Company, Boston, Mass.,** and long a civic and lay religious leader in Brookline, Mass., died on Sept. 23.

* * *

F. Reginald Gisborne, Jr., former Vice-President and Secretary of **Greenwich Trust Co., Greenwich, Conn.,** was elected on Sept. 24 as President of the institution. He succeeds Hugh D. Marshall, who retired.

* * *

The Hartford "Courier," of Sept. 21, said that the directors of the **Phoenix State Bank and Trust Company, Hartford, Conn.,** at their meeting on Sept. 20, accepted the resignation of Leon P. Broadhurst as Chairman of the board of directors. Mr. Broadhurst is bringing to a close, on Sept. 30, 62 years in the banking industry. Mr. Broadhurst has served 29 years as President and five years as Chairman of the board of directors. He is believed to have been the dean of commercial bankers in Connecticut.

* * *

Fred M. Kirby 2nd was elected on Sept. 13 a director of the **First National Iron Bank of Morristown, N. J.,** replacing Hurlbut B. Cutting who had served on the board since 1935, according to advices to the Newark "Evening News" from its staff correspondent at Morristown.

* * *

Irving Riker, head of the Newark law firm of Riker, Emery & Danzig, has been elected a Director of the **Fidelity Union Trust Company, Newark,** it was announced by Horace K. Corbin, President, according to the New York "Times" of Sept. 21 which added:

Mr. Corbin also announced the election of Robert C. Driver, President of the Wilbur B. Driver Company of Newark, to the advisory board of the Essex County branches of the Fidelity Union Trust.

Mr. Riker has been President of the Franklin Savings Institution since 1944 and a member of the board of managers since 1924. He is a Director of the Mutual Benefit Life Insurance Company.

* * *

Announcement of the promotion of Robert F. McCammon, Auditor of the **Girard Trust Company of Philadelphia,** to the office of Assistant Vice-President, was made on Sept. 18. According to the Philadelphia "Inquirer," Mr. McCammon, who has been with the institution since 1944, was made Auditor on March 1, 1946. From the "Inquirer" we also quote:

"He is currently serving as President of the Philadelphia Conference, National Association of Bank Auditors and Comptrollers. John T. Neeley, Assistant Secretary, was named to succeed Mr. McCammon as Auditor. Herschel E. Shortlidge and Norman J. Linker were appointed Assistant Trust Officers."

* * *

Plans for the reorganization of the first bank to be established in **Waldorf, Md.** (to be known as the **Waldorf Bank**) are underway, it is learned from the Washington, D. C., "Post" of Sept. 10. The bank will be formed under a State charter and will have capital funds of $225,000, of which $75,000 will be surplus. It is planned to offer 15,000 shares (par $10) at $15 a share. The incorporators are R. Harry Moreland, James P. Ryan, W. Mitchell Digges, William H. Winstead, Jr., and P. Henry Beaile.

* * *

Two new directors, viz. William T. Faricy and Dr. Charles Stanley White, have been elected to the board of the **Riggs National Bank of Washington, D. C.,** it was announced on Sept. 13 by Robert V. Fleming, President of the bank. Advices to the effect by S. Oliver Goodman appeared in the Washington "Post" of Sept. 14, from which the following is also taken:

Dr. White is President of Doctors Hospital and head of the surgery department of that institution. He is a member of the George Washington University Board of Trustees.

Mr. Faricy is President of the Association of American Railroads. Following private law practice, he served as counsel for the Chicago St Paul Milwaukee & Omaha Railway and the Chicago & North Western Railway. He is the author of numerous books and articles relating to various phases of the railroad industry. Last month, he was appointed by Secretary of Defense Louis Johnson to serve as Chairman of civilian components policy board of the National Military Establishment.

Two vacancies have existed on the Riggs' board since the deaths of Sterling Ruffin and Fleming Newbold.

* * *

The Bank of Virginia, Newport News, Va., has leased the building at 2803-05 Washington Avenue, Newport News, and will remodel it into modern banking

(Continued on page 42)

Hoffman Extols Sterling Devaluation

ECA Administrator says action gives added promise that by June 30, 1952, when Marshall Plan aid ends, Europe will be on self-supporting basis, provided we do our share.

Paul G. Hoffman, Economic Cooperation Administrator, at a press conference on Sept. 19 in Washington, praised Sir Stafford Cripps' decision to devalue the pound sterling as a move toward putting Europe on a self-supporting basis. His prepared statement at the conference follows:


Paul G. Hoffman

"Great Britain's decision to devalue the pound sterling from $4.03 to $2.80 is a bold and imaginative measure of far-reaching importance to the European Recovery Program. It is dramatic evidence of earnestness of purpose. It signifies that Great Britain has decided to compete in a free world to capture dollars which are essential to her recovery and to work aggressively toward conditions permitting a higher level of competitive trade. It opens the way, not only for her but for Europe as a whole, to earn their way in the world.

"British recovery progress has been great, her production is averaging 50% above prewar, her productivity has increased but her prices remained high. Two solutions were open to her. She could either maintain the value of her currency and look towards her Commonwealth and Empire for support or devalue the sterling and attempt to earn her way.

"The first course would have resulted in building higher and higher tariff walls around herself and the British Commonwealth and ultimately would have created a third world. We then would have had the Soviet world, the dollar world, and the sterling world. In my opinion this would have been the greatest setback that the European Recovery Program could have suffered, since only a united western world can hope to achieve permanent recovery in Europe.

"The second course was for her to review the value of her currency and thus provide a climate for increased dollar earnings. This course affords her an opportunity to earn her way. Other countries in Europe which have followed her example will also have an opportunity for balancing their economies.

"Devaluation, however, is not a cure-all for Europe's problems. Her efforts to increase productivity and thus lower costs must be itensified. She must also work with all possible speed to reduce trade barriers and thus create a single market of 275 million consumers, for whom European industry and agriculture can produce economically and to whom European manufacturers and farmers can sell freely among themselves and to the rest of the free world.

"Immediately ahead for European countries is the necessity for bold and imaginative measures to sell their products in the United States. America is the richest market in the world. We had an annual gross national product of approximately $250 billion in 1948. In order for Europe to balance her accounts she must sell an additional $2½ billion worth of goods in the United States. This is only one percent of our 1948 gross national product and no one can predict accurately whether this figure will be $250 billion or $255 billion during the current year. Nevertheless, when viewed in the light of the American gross national product, the amount Europe must sell can be seen in its proper perspective. It is up to Europe to attract an additional one percent of the American national income and through extra intensive efforts and new lower prices, this can be achieved.

"In my opinion, the measure which Great Britain has taken and the fact that nine other countries have followed the same course gives added promise that by June 30, 1952, when Marshall Plan aid ends, provided always that we do our share, Europe will be on a self-supporting basis."

Computes Individual Savings at $1 Billion

Securities and Exchange Commission, in survey for second quarter of 1949, notes decline in holdings of currency and bank deposits, accompanied by larger increase in insurance and security holdings.

Individuals saved about $1.0 billion in liquid form during the second quarter of 1949, according to the quarterly estimates of individuals' saving made public by the Securities and Exchange Commission. This amount of liquid saving was about $300 million more than in the first quarter of this year and about $200 million more than in the second quarter of last year.

Liquid saving comprises saving in the form of currency and bank deposits, equity in savings and loan associations, insurance and pension reserves, securities, and reduction of mortgage debt and other consumer debt. Saving in non-liquid forms, such as the purchase of new homes and new physical investment by individuals, is also estimated to have increased slightly in the second quarter of this year.

Individuals' holdings of currency and bank deposits declined $200 million in the second quarter as compared with a $3.6 billion drop in the first quarter. Individuals' equity in insurance and pension reserves increased $1.4 billion, while the net addition in security holdings amounted to $1.0 billion. Approximately $400 million was added to savings in savings and loan associations. At the same time mortgage debt of individuals increased $900 million and consumer debt increased by $700 million.

The $200 million decline in individuals' holdings of currency and bank deposits in the second quarter was the result of a decline of $600 million in demand deposits, offset in part by an increase of $400 million in time and savings deposits. Currency showed little change.

Net additions to insurance and pension reserves in the second quarter of 1949, as in the first quarter, were at a somewhat lower level than in the last several years as a result of smaller additions to government insurance funds, largely social security funds. Individuals' equity in private life insurance increased $900 million, about the same as in earlier quarters, but government insurance funds increased only about $500 million. The increase in government insurance funds in the corresponding quarter of last year amounted to about $900 million.

Security holdings of individuals increased about $1.0 billion in the second quarter of 1949; in the first quarter there had been an increase of $2.1 billion. Holdings of U. S. savings bonds increased only about $300 million in the second quarter, compared with an increase of $700 million in the first quarter; and holdings of other U. S. Government securities in the second quarter declined $200 million, compared with an increase of $700 million in the first quarter. Holdings of state and local government securities increased $400 million, about the same as in the first quarter, and holdings of corporate and other securities increased $500 million, somewhat more than in the first quarter. Of the $500 million increase in corporate and other securities, $300 million was in bonds and $200 million was in stocks. Net issues of securities in the second quarter, after retirements, are estimated to have amounted to about $2.3 billion, most of which were absorbed by institutions, mainly insurance companies. There was a $400 million increase in borrowing by individuals for the purpose of purchasing or carrying securities.

As for the remaining components of liquid saving, mortgage debt showed an increase of about $900 million, somewhat more than in the first quarter, and other consumer debt increased about $700 million as compared with a reduction in debt of $1.0 billion in the first quarter.

Raymond F. Revell With Apgar, Daniels Co.

(Special to The Financial Chronicle)

CHICAGO, ILL. — Raymond F. Revell has become associated with Apgar, Daniels & Co., 120 South La Salle Street, members of the Chicago Stock Exchange. Mr. Revell was formerly for many years with Comstock & Co.


Raymond F. Revell

NYSE Members Again Reject Permissive Incorporation Plan

According to an announcement of the New York Stock Exchange on Sept. 22, the proposed amendment to the Constitution which would provide, under certain definite restrictions, for permissive incorporation of member firms and admission of corporations, was disapproved by a majority of the 1 213 ballots cast by the membership. The vote was 394 approving; 815 disapproving; 4 blank or defective.

The amendment was approved by the Board of Governors of the Exchange on Sept. 8, and was ordered submitted to the membership for balloting. It would have permitted member firms of the Exchange to incorporate under certain definite restrictions and would enable incorporated nonmember houses, engaged exclusively in the securities business, to hold membership in the Exchange under the same restrictions and under the general policies of the Exchange. The defeat of the proposal marks the second disapproval in a little more than two years at the hands of members.

Railroad Securities

Illinois Central's Exchange Offer Seen Successful

In last week's issue of the "Chronicle" the terms of the Illinois Central bond exchange offer were briefly reviewed and the list of securities participating in the exchange was published. Eugene W. Stetson, Chairman of the Illinois Central's Executive Committee, in a press conference held in New York City on Sept. 26 expressed confidence that the plan would be acceptable to holders of upwards of $25 million of the bonds to be exchanged and said he had "tentative assurances to that effect," and this would make the plan effective.

Mr. Stetson called attention to the fact that the new consolidated mortgage bonds which are being given in exchange will eventually become a first mortgage bond. He added that unexchanged bonds will be paid off at maturity, although the road may be forced to borrow to provide funds for the purpose.

Wayne A. Johnston, President of Illinois Central, commenting on the road's efforts to place its properties under a single mortgage, stated that an ultimate objective was to place the company in a position to pay a cash dividend on the common stock. Mr. Johnston noted that the road's funded debt had been cut by $137 million since 1927, with a consequent reduction in fixed charges from $14.5 million annually to the current figure of $8.1 million. The road's net income for 1949 was estimated by Mr. Johnston at $13.5 million-$14 million, compared with some $20 million in 1948.

In the course of his talk, Mr. Stetson said the aim of the Illinois Central's management is to simplify the corporate structure so that eventually there will be outstanding only a single bond issue. He noted that the road has maturities of $81 million between now and 1955, and that 23 separate issues fall due in the next four years. The railroad, now nearly 100 years old, has never gone into bankruptcy, and the current exchange offer is merely a step in the simplification program.

It was announced that holders of presently exchangeable bonds desiring to accept the offer of exchange should transmit such exchangeable bonds without delay to Kuhn, Loeb & Co., 52 William Street, New York 5, N. Y., who are acting as agent and depository for the company in this transaction and who will be compensated by the company for their services in that connection.

In the event that the exchange offer shall not be declared operative on or before Oct. 28, 1949, deposited exchangeable bonds will be returned to depositors thereof without expense to them upon surrender of any counter-receipts issued in respect thereof. In the event of revocation of an acceptance of the offer, the exchangeable bonds transmitted by the person revoking such acceptance will similarly be returned to him without expense to him.

Harold Schapiro in N. Y.

Harold Schapiro will engage in a securities business from offices at 122 East 42nd Street, New York City.

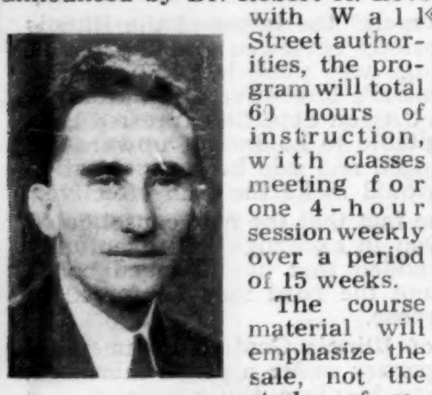
Frank D. Newman Adds

MIAMI, FLA.—Joseph L. Barton has been added to the staff of Frank D. Newman & Co., Ingraham Bldg.

Securities Selling Course at City College

Dr. Robert A. Love, Evening Session Director, announces weekly four-hour session over period of 15 weeks.

A new course in Advanced Salesmanship for Securities Selling will start at The College of the City of New York, Midtown Business Center, 430 West 50th Street, New York City, on Oct. 25, it has been announced by Dr. Robert A. Love, Director. Planned in cooperation with Wall Street authorities, the program will total 60 hours of instruction, with classes meeting for one 4-hour session weekly over a period of 15 weeks.



Robert A. Love

The course material will emphasize the sale, not the study, of securities. Experienced sales executives will cover advanced selling techniques from the approach to the close. In addition, well known financial experts will lecture on significant elements of investment and portfolio selling as well as legal limitations in serving new customers. Intensive practice will be given in the accomplishing of complete sales, and the development of impressive speaking.

Instruction, it is stated, will be in the hands of thoroughly experienced sales executives who keep the sessions realistic and up to the minute. The course material will be geared to the selling, not the study, of securities. It is assumed that participants in the course will have a working knowledge of the securities field. In addition to presenting proven sales techniques, the new program will include lectures by outstanding Wall Street experts on such topics as:

I

Serving the New Customer for Investment Trusts—(A) How to present the benefits of investment trusts clearly and forcefully; (B) how to demonstrate the advantages of investment trusts (use of visuals, charts, tables, etc.).

II

Serving the New Customer for Portfolios—(A) Determining the portfolio that will best accomplish the customers' objectives; (B) types of portfolios and how they may be adapted to the varying needs of the new customer: (1) widows; (2) fathers (planning college education for children); (3) etc.

III

Serving the New Customer for Preferred Stocks, Bonds, and Common Stocks—(A) What the customer needs to know about them; (B) how to help the customer make a selection best adapted to his needs.

IV

Serving the New Customer—Legal Limitations—(A) Securities and Exchange Commission rules—how they affect the new customer's demands: (B) other legal restrictions on the sales of securities.

V

Conclusion—The Demand for New Source of Venture Capital in the U. S.—(A) Opportunities for the new customer; (B) opportunities for the securities salesman.

In keeping with the proven doctrine of "learning-by-doing" which guides presentation of all course material, six full hours of instruction will be given over to actual practice in accomplishing the complete sale.

$77,500,000 Penn. Turnpike Bonds Offered

A new issue of $77,500,000 Commonwealth of Pennsylvania Turnpike System 2.90% revenue bonds was offered for sale on Sept. 28 by a banking syndicate headed by Drexel & Co., B. J. Van Ingen & Co., Inc., Blyth & Co., Inc., and The First Boston Corporation. The bonds, dated June 1, 1949, and maturing on June 1, 1988, are priced at 100% and accrued interest.

Proceeds from the sale of these bonds will be used by the Pennsylvania Turnpike Commission for the construction of the Western Extension to the turnpike—a distance of 67 miles to extend from the present western terminus at Irwin, Pa., to the border of the State at the Ohio line.

The new bonds will have an equal lien with the bonds presently outstanding with principal and interest payable solely from the revenues of the Turnpike System. They are exempt from Federal income taxes as well as from taxation in Pennsylvania and are eligible for investment for savings banks and trust funds in Pennsylvania.

The underwriting syndicate includes about 215 security dealers located in all parts of the country.

Construction of the Western Extension is scheduled to commence next month and, according to the consulting engineers, should be completed and open for traffic in December, 1951. Traffic engineers estimate that the Western Extension will carry a heavier volume of traffic than any other section of the turnpike.

Last year Pensylvania Turnpike Commission sold through a similar banking group $134,000,000 revenue refunding and extension bonds, consisting of $87,000,000 3¼% term bonds, due June 1, 1988, for the construction of the Philadelphia Extension, and $47,000,000 2¼% serial bonds, the proceeds of which have been escrowed for the redemption on Dec. 1, 1951, at 104 and interest, the $45,086,000 of 2½% bonds which were issued in 1946. The Philadelphia Extension, which will connect with the existing turnpike at Middlesex, Pa., and extend eastward for approximately 100 miles to within seven miles of Philadelphia, is under construction and is scheduled to open for traffic in December, 1950.

Upon completion of the present $77,500,000 financing and redemption of the $45,086,000 2½s, the Turnpike Commission will have outstanding a total of $211,500,000 of revenue bonds. Maximum annual interest requirements on that debt will amount to $6,098,750. The maximum annual interest requirement will occur in the fiscal year ending May 31, 1953. With the opening of the two extensions, engineers estimate that net revenue of the completed 327 miles of roadway extending from just outside Philadelphia to the Ohio line, will amount to about $14,708,000 in 1953 and increase to a peak of $20,230,000 by 1962. For the 12 months ended July 31, 1949, total operating revenue, including income from leases, rentals, etc., on the present 160 miles of the turnpike amounted to over $6,600,000.

P. H. Woodruff Opens

COLEMAN, TEXAS—Pinckney H. Woodruff is engaging in a securities business from offices in the Coleman County State Bank Building.

Will Devaluation Close Britain's Dollar Gap?

(Continued from first page)

ties with London. Moreover, the so-called "gap" is the difference between the dollars which the sterling area earns through the sale of goods and services to the dollar area and the number of dollars needed to pay for the goods the nations of that area would like to have from us. There is no limit to human wants; therefore, no ceiling to the dollar gap. It is likely to be as great as the expectation of continued American help.

If perchance the lowering of the pound's value from $4.03 to $2.80 was the result of scientific calculation by the British Government, one may well have reservations about anyone's ability to foretell just what rate will bring about ultimate equilibrium in international payments. Our ability to forecast the problems of the postwar period has been very poor, on the record. Many persons thought that the Bretton Woods program was going to do the job, along with UNRRA and an expanded Export-Import Bank. If we only did those things, Representative Jesse Wolcott (himself a Bretton Woods delegate) told Congress, "there will be no justification for the Treasury directly loaning to any foreign country one single dollar." But, before very long, Mr. Wolcott was back in support of a large loan to Britain.

Early in 1946 the Senate banking committee approved the British loan. It did so in part on the grounds that without such Congressional aid to Britain, "the Bretton Woods institutions cannot fulfill the hopes which we have placed in them." But those who thought that the loan would make fulfillment possible were subsequently faced with a much larger decision called the Marsall Plan. And now we have been officially informed by the OEEC, which administers the ERP from the European side, that the Marshall Plan is not enough. If these measures were not enough, will devaluation be enough?

British "dollar" imports, long supposed to be at a bare minimum, are to be reduced—along with Commonwealth imports from the dollar area—by 25%. Since this step was announced weeks before the devaluation and can be put into effect by administrative action, it is questionable whether any saving of dollars resulting from this policy should be credited to the devaluation of the pound.

Increased exports to the dollar area are another matter. It is obviously hoped that the reduction in the exchange value of the pound sterling, being reflected more or less in the landed cost of British goods offered in the U. S. A., will provide a large stimulus to British sales and dollar earnings and so close the gap from the other side. But this is not as simple as it sounds. In the first place, merely to keep on earning after devaluation the same number of dollars as were earned before devaluation, assuming no change in the price lists of British export goods, will require an increase of about 44% in the volume of British exports. A British car which sold for £500 before devaluation and thus added $2,000 to the Bank of England's hard-currency reserves, after devaluation, while still selling at £500, puts only about $1,400 in the reserves. Britain must now sell 1.44 cars merely to earn the same number of dollars one car earned before. To double its dollar earnings through exports, Britain would have to triple the volume of exports to this market.

The London "Economist" this week offers some calculations, based on the first half year's trade of the United Kingdom (alone) with the dollar area. That half year's merchandise trade left a gap of $484,000,000 between Britain's imports and exports. After allowing for a 25% cut in imports during the second half of 1949 and for price adjustments due to the change in the value of sterling, the "Economist" concludes that to close the merchandise gap of the UK alone will mean a 144% increase in British exports to the dollar area. That is, the UK's own exports must be almost 2½ times as large as during the first half of this year.

It may be of interest to quote some of the opinions expressed by the "Economist" a week after the devaluation was announced. "Is the British economic crisis now solved? To believe that would be to imply that the only thing wrong with the British economy last week was the rate of exchange between the pound and the dollar. . . . It cannot be said too often and too emphatically that, however necessary and inevitable the depreciation of sterling may be, it cannot provide a solution to the British economic problem. . . . Devaluation as such is no answer at all to what is still Europe's most urgent problem—the dollar problem."

Raw Materials Demand Inelastic

About four-fifths of this country's merchandise imports from the UK and British countries in the sterling area comes from countries which are preponderant producers of raw materials. The demand here for those raw materials is relatively "inelastic" and unresponsive to price changes. Moreover, the production of those raw materials is not easily expandable. This means that devaluation of Empire currencies must fall far short of being 100% effective in stimulating sales to the U. S. and other hard currency countries. Even in the case of manufactures, which constitute virtually the whole of the goods Britain itself sells here, price is only one consideration in American buying. The goods must be suitable. Certainly there must be a considerable delay in the U. K. while the country turns around to devote its main export attention to the U. S.; a delay of many months while factory procedures are changed and the American market is studied and exploited. According to one recent British study: "More than half of Britain's exports consist of types of goods—machinery, vehicles, electrical equipment, iron and steel, chemicals, even coal—which can have little chance of supplanting *within* the U. S. market American goods of known brands and qualities and American specialties even if the U. K. goods could be produced at two-thirds of the cost at which the competing products are produced in the United States." (Ernest H. Stern, "The Banker," Sept., 1949.) Besides, as the U. S. Commerce Department recently pointed out, the U. K.'s productive ability is limited and cannot be readily expanded.

The same department also finds it "not inconceivable" that commodity prices in terms of sterling "would rise very considerably and offset to a considerable extent the advantages which might come as a result of this" devaluation. There is rather widespread uneasiness that the British Government may be unable to hold internal prices down, since all imports are automatically increased in sterling cost as a result of devaluation of the pound; and this in a country which depends for survival on imports.

Devaluation in Europe, making the local-currency prices of U. S. goods much dearer, will to some extent stimulate trade among European countries, their goods now seeming cheaper than American goods, as compared with the situation before the devaluations. But if this happens, the increased exports will be earning not the badly-needed dollar, but soft currencies, and so won't help close the dollar gap.

Since sterling's devaluation this time, unlike 1931, occurs in a time of full employment, British labor is in a good position to exact higher wages. The ability of union leaders to control the workers is far from assured. And if, in the soft-currency areas where Britain buys much of its imports, wages and prices go up also, this will be reflected in the cost of British imports and, ultimately, British exports as well. Thus, ultimately, the stimulus to exports from devaluation tends to be dulled.

Nor can we safely assume that American manufacturers will idly watch the invasion of their home market, or their export markets, without offering the British a little competition. This, too, will tend to reduce the dollar-earning capacity of post-devaluation Britain.

To quote a recent article by Dr. John H. Williams of the Federal Reserve Bank of New York, devaluation may increase, rather than relieve the drain on British reserves. Moreover, without the disposal of Britain's sterling "war debt" to India and other countries—the socalled "sterling balances"—Dr. Williams stated "there can be no assurances that devaluation would be definitive."

James E. Goodwin Now With Sills, Fairman

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — James E. Goodwin has become associated with Sills, Fairman & Harris, Inc., 209 South La Salle Street, members of the Chicago Stock Exchange. Mr. Goodwin was formerly an officer of Rodger, Kipp & Co. and prior thereto he was with Fred W. Fairman & Co.

James E. Goodwin

Denver Inv. Men to Hear J. W. Tierney

DENVER, COL.—Earl E. Scanlan, Earl E. Scanlan & Co., Chairman of the Education Committee of the Rocky Mountain group of the Investment Bankers Association announces that the IBA group and the Bond Club of Denver are presenting John W. Tierney, Secretary-Treasurer of the Mountain States Telephone and Telegraph Company, who will discuss the general outlook for the company at a luncheon in November.

When such meetings are held, investment dealers are permitted to invite stockholders, which has proven very effective in the sales of local securities.

Now Sole Proprietor

Peter Mencher is now sole proprietor of Mencher & Co., 32 Broadway, New York City, Joseph Conns having withdrawn from the firm.

Mortage Industry—No Longer a Free Agent

(Continued from page 12)

ket and soften the decline in real estate prices. However, a payment-adjustment program should be a program inaugurated and carried out by the mortgage lenders rather than moratoria legislation enacted by our legislators or blanket programs decreed by our insuring or guaranteeing agencies.

Let the lenders by their own practices and policies make their own moratoria laws rather than have them made for them.

Must Be Free of Washington Atmosphere

During the next decade we must regain some courage and have something to say about how our own business is to be conducted. Figure it out for yourselves. You are successful businessmen. Many of you built your business by your own intelligence and hard work. Why should you permit men who have achieved their positions through politics rather than by business accomplishments evolve and control policies in affairs so vital to the future of our country? Stop being misled by the magnifying qualities of the Washington atmosphere.

The mortgage finance industry has not been, during the recent years, sufficiently astute, courageous or vocal as it should have been. We should strenously resist all efforts to make our position as mortgagee more difficult than it already is. We should stop being frightened by the "bogeyman," trotted out for our benefit, of government doing the mortgage lending if we do not accede to all the crackpot suggestions made by those who have interests to serve. We should begin to tell the public, particularly home buyers and mortgagors, of the harm eventually done to them by this inflated finance, this selling a home for "so much a month" instead of quoting a price that the buyer will eventually have to pay, and the extension of terms of payment of the debt that requires the debtor to spend nearly all of his earning years in bondage.

We should stand up and tell the world, including all borrowers and including all social-minded political power seekers, that we will lend proper amounts on proper values — we will lend at proper interest rates and on proper terms and in so doing, we are protecting the borrower as well as ourselves. Let's get across to the borrowers that we — the mortgagee and the borrower — are in the same corner. We are the only ones left with an interest in the property after its completion. Let's tell the building industry that it should build adequate houses at fair prices and lenders will do their part.

Taking this position implies that we are going to do our part in dealing fairly with the buyers, the borrowers, the builders and all other part of the real estate and home building industry. We are going to serve the home-owning field and all other parts of the real estate activity including industrial, commercial, churches, etc. We are going to be mortgage bankers and do the job required of us. When we come to the "mortgage default period," we are going to do our part in a manner beneficial to the welfare of the country as well as our own interests.

Must Justify Right to Freedom

Probably the greatest responsibility we will have, not only in the next decade but for all time to come, is to recognize the fact that if we wish to be "free" under the free enterprise system, we must justify our right to be "free." We cannot accept freedom of action without assuming the responsibilities that go with it. If we as mortgage bankers and if we as commercial and savings bankers wish to occupy respected positions in our economy, then we must fill those positions. Let us do our part as we were intended to be—as "risk" creditors without the crutch of government to weaken our courage and character. Without courage and character we abandon our independence and end in acceptance of dictation and domination by politicians. These politicians are taxing the great productive class of this nation to support impractical social legislation, to foster more and more dependence of the masses, so that they may maintain and continue themselves in power.

What should be our mortgage policy? Our policy should be to secure all good loans possible and give earnest attention to the service of all loans in our portfolios. Our insured and guaranteed loans should be made with the same care and attention given to the making of our conventional loans and with the belief that "insured or guaranteed" or not, it is our depositors' money we are lending.

We should recognize that the responsibility for the funds we lend is primarily to our institutions, but in carrying out that responsibility, we frequently find a responsibility to the borrower intermingled; responsibility that we do not lend him funds beyond his ability to repay—a responsibility to advise with, to assist and to encourage the worthy borrower should some unforeseen emergency or condition cause him difficulty in meeting the terms of his loan.

We should recognize a responsibility to help shape the lending policies of this country. We should not sit idly by and permit these policies to be decided and then promoted by a "starry-eyed" group who either ignore sound business practices or confuse them with welfare politics. We should question whether government insurance, government guarantees, government subsidies, "direct lending by government" or lending, as Miles Colean states, as "a matter of welfare, to which risk is not a prime consideration. . . " will lead to further inflation, will add to our present over-grown government debt and will react to the detriment of all home owners and all taxpayers. If the answer is "yes" then we should actively oppose such insurance, guarantees, subsidies and lending.

We should move foward with wisdom, courage and determination—wisdom to profit by past mistakes and void future pitfalls; courage to keep from being frightened by things that may never happen, and courage to oppose openly and actively that which we know to be wrong. We must have determination to conduct our affairs in a manner entitling us to the respect and confidence of all persons and groups with whom we do our business. We must conduct our affairs in a manner that will prove to the borrower, the public, and to the lawmakers of our states and nation our desire to handle our problems intelligently, fairly and even generously, and still remain true to the trust to protect the funds of our institutions.

In New Connection

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF.—Oscar F. Catoire has become associated with Investors Diversified Services, Inc. He was formerly with Hannaford & Talbot.

Col. Pope President of Investors League, Inc.

Colonel Allan M. Pope, for many years President of The First Boston Corporation and a former President of the Investment Bankers Association of America, has accepted the presidency of the Investors League, Inc., it was announced. Colonel Pope is also Chairman of the finance committee of New York University, and a former President of the Commerce and Industry Association of New York City.


Allan M. Pope

A new slate of directors is being submitted to the membership of the League for action at the annual meeting to be held next month. In addition to Colonel Pope and B. C. Forbes of Forbes Magazine, Mrs. M. C. Walther of Philadelphia, business woman and investor; Mrs. Jessie R. Muni, investment counsellor of New York City, who are current members, the new slate consists of Dr. C. Canby Balderston, Dean of The Wharton School of Finance & Commerce and Professor of Industry of The University of Pennsylvania, Philadelphia; Daniel W. Bell, former Under-Secretary of the United States Treasury and now President of the American Security and Trust Company of Washington, D. C.; G. Rowland Collins, Dean of the Schools of Business, New York University; Captain Thomas B. Doe, until his recent retirement President of The Speery Corporation and now serving in a consulting capacity and as a member of the board of directors of that corporation, and Edward V. Rickenbacker, President of Eastern Air Lines.

"It is most gratifying that Colonel Pope has agreed to serve our organization as President and that men of the high caliber and practical experience of the proposed directorate have agreed to devote their time and efforts to the work of the League" said B. C. Forbes, board Chairman. "Under their guidance and the direction of Colonel Pope," he added, "the League holds every promise of becoming an increasingly constructive force in our national economy."

Walston, Hoffman Co. Expand in the East

Walston, Hoffman & Goodwin, members of the New York Stock Exchange, announce that Walter W. Buckley and Carl S. Wittmer, Jr., will be admitted to the firm as general partners on Oct. 1. Effective on that date, Walston, Hoffman & Goodwin will take over the Philadelphia, Harrisburg, Pa., and Hagerstown, Md., offices of the New York Stock Exchange firm of Buckley Brothers which is dissolving. Mr. Buckley will act as resident partner in Philadelphia and Mr. Wittmer as resident partner in Hagerstown. Also joining the firm are 30 registered representatives formerly associated with Buckley Brothers.

Walston, Hoffman & Goodwin, one of the largest investment houses on the Pacific Coast with 17 offices in that territory, opened its first eastern office, in New York, in November, 1948, later establishing an office in East Orange, N. J.

NAM Sees Price Stabilization Ahead

In announcing the results of a study made by the research department of the National Association of Manufacturers, Earl Bunting, managing director of the organization, stated that, on basis of latest government figures, manufacturers' prices average a full 9% below August a year ago, and the trend is toward a level of price stabilization.


Earl Bunting

"Manufacturers," according to Mr. Bunting, "have reduced their prices three times as much as the 3% reduction, from the peak, in the overall cost-of-living index. This should answer the statements in some quarters that industry has been curtailing production in order to maintain prices. This 9% reduction in the factory prices of manufactured goods is a healthy and substantial readjustment. It is a clear indication that the manufacturing industry is doing its full share in maintaining production, employment and competition."

Quoting from the NAM survey, Mr. Bunting stated:

"For manufacturing as whole there has been no great change in the output per man-hour of work for the past 10 years. Broadly speaking, the output per manhour in manufacturing today is only around 10% higher than it was a decade ago. There was a good deal of reason to hope that by the present time it would be 20% to 30% higher than it was in 1939.

"It would be a great thing if all people everywhere could be brought to realize the profound implications of this basic factor which bears directly upon questions of wages, prices and the standard of living. American industry has seen hourly wages go up to more than 118% above the 1939 level and at the same time has seen no important rise in output per man-hour to soften the heavy impact of this wage rise upon industrial costs and prices. The result has been that industrial wage costs per unit of production have virtually doubled along with hourly wages.

"Under the circumstances, it is not surprising to find that factory prices—wholesale prices—of manufactured goods today average about 85% above the 1939 level."

Recent Price Changes

"The overall wholesale price level (of both farm and industrial commodities) made no substantial upward progress during 1948. It reached the top in August, 1948, and slipped off gradually to August, 1949, when it was back around the August, 1947, level.

"This rounding over of the price trend does not necessarily mean that the American economy is heading into a crash. On the contrary, there is considerable evidence that price stabilization can occur, within reasonable limits of normal fluctuation. It may be noted that the wholesale price index for all commodities, other than farm and food products, moved only very moderately in either direction throughout the entire 20 months that ended August, 1949. It did not swing 4% in either direction from its own average between the beginning of 1948 and August, 1949. This is the index which includes many manufactured and semi-manufactured products."

Profits

"Corporate profits as a whole have been very good indeed for several years. The dollar aggregate of such profits has been large—like almost every other economic aggregate in our national income data. However, the proportion of profits to sales or to national income has not been great or excessive.

"Manufacturers have not averaged as high as 6% final net profit margin on sales in any year since 1939. For 1948, preliminary results indicate the figure was approximately 5.4% in manufacturing."

Deposits in U.S. Savings Banks Top $19 Billion

During August deposits of the 530 mutual savings banks of the nation showed a rise of $37,000,000, to reach a new high total of $19,025,000 on Sept. 1, Henry S. Kingman, President, National Association of Mutual Savings Banks and President, Farmers and Mechanics Savings Bank, Minneapolis, reported today. The gain compares with one of $22,000,000 in August last year.


Henry S. Kingman

Deposit gains for the first eight months of 1949 of $625,000,000 or 3.4%, likewise far exceeded gains of $468,000,000 or 2.6% for the same period last year. For each month this year to date (except February) the gain in total deposits has been greater, and the ratio of withdrawals to amounts deposited in regular accounts less, than during the corresponding month last year.

Portfolio policy during August was featured by a further net gain of $72,000,000 in mortgage loans, the second highest this year. Cash also gained $11,000,000, but holdings of corporate and municipal securities declined $9,000,000 and U. S. Governments $12,000,000. During the first eight months of 1949, the savings banks added $501,000,000 to their mortgage portfolio, $219,000,000 of corporate and municipal securities, and $124,000,000 of U. S. Governments.

Climax Molybdenum Elects

On Monday, Sept. 26, the board of directors of Climax Molybdeum Company elected H. J. Szold a director. Mr. Szold is a general partner of Lehman Brothers and a director of the Firth-Sterling Steel & Carbide Corporation, Allied Stores Corp., Interstate Department Stores, Inc., Bing & Bing, Inc., and Gimbel Brothers, Inc.

The board also elected William J. Coulter a Vice-President in charge of mining operations. Mr. Coulter has been with the company since 1927 and has been Manager of Mining Operations since 1934.

The board also elected Weston Gage Thomas Treasurer of the company. Mr. Thomas resigned his position as Vice-Chairman of the board of the Potash Corporation of America to assume these new duties with Climax. Prior to this connection he had been Administrative Officer of the Industrial Department of Lehman Brothers, New York City.

Securities Salesman's Corner

By JOHN DUTTON

Sometimes you know things work out a certain way if you will only follow a proven, time-tested procedure. But somehow or other we all get lazy or careless and we fall back on trial and error regardless of the fact that others have blazed a trail that leads clearly and surely toward success. This was brought home to me the other day when I was talking about our favorite subject with the sales manager of one of the largest retail organizations in the country.

He turned to a picture on the wall that was filled with many faces. It was taken at one of the those dinner get-togethers with which we are all so familiar. There must have been about 50 men seated around the table. It was a picture taken at one of his firm's annual dinners. "You see that face? Look at it," he said. "That is a picture of the best salesman I ever had the pleasure of working with, or of knowing." I told him I couldn't see the face very clearly because it was too small. He said he know that, and he went to his drawer and removed a high-power magnifying glass. Handing it to me, he said, "Now look at it." I noticed only one thing about the face, it was not unusual, it was that of a man past middle age; it certainly was not handsome or compelling, but it did radiate a warmth that was clearly visible even under the difficulties of viewing it with a magnifying glass.

I remarked that the face looked like its owner was a friendly sort of fellow. My friend, the sales manager said: "You've got it. Everyone that looks at that picture sees it. That is what this fellow had, and it was worth more than any other asset I have ever seen." Then he went on and told this story:

This salesman grossed over $50,000 in 1945 and the same figure in 1946 in a rural territory around central New Jersey. When he died, early in 1947, he left friends in almost every town and hamlet within 50 miles of his home. He had the faculty of MAKING EVERYONE WITHIN HIS CIRCLE OF ACQUAINTANCE THINK THAT THEIR PROBLEMS AND THEIR AFFAIRS WERE MORE IMPORTANT THAN ANYTHING ELSE THAT MATTERED TO HIM. When a person bought securities from him, THEIR INVESTMENT PROBLEMS were of paramount importance. He called to see them. He spent time with them. He followed their securities by mail and by phone, and he had a way of telling these people that their WELFARE was his first consideration, AND THEY BELIEVED IT. They believed it because he lived what he said. He not only talked about his interest in their welfare, HE ACTED IT. He was civic-minded too. He lived a life of unselfishness and, according to my friend, his only fault seemed to be that he neglected his health. Where he was right in helping others, he was wrong in neglecting himself.

It is possible that this man was an extremist in his attitude toward his fellowman. In addition to his work he was connected with scores of civic organizations, always giving of his time and health for others. His big mistake was that he neglected his health. He had a slight body he never could learn to give it a rest.

When all is said and done, the faculty of being sincerely interested in the welfare of those with whom you do business will bring about a relationship between client and salesman that will build a successful business. But this interest must not be synthetic, it must not be spasmodic, it must be part and parcel of every working day. It will bring success as surely as night follows day, providing it is a full-time policy and not just something that you know is good salesmanship, to be turned on and off as the spirit moves you. It isn't all of us who can gross $50,000 in a year, but we can double and triple our business during the next two years just by working along and making our customers believe in us BY PLACING THEIR WELFARE FIRST.

Near-Term Business Prospects

(Continued from first page)

has been having a recession. The wholesale price level has dropped about 10% and the index of consumer prices about 3%, industrial production in July was over 13% below last year, and the number of people at work or holding jobs was nearly two million less than a year ago. The gross national product in the second quarter of 1949 was running in physical terms about 3% below a year ago.

The immediate cause for the recession has been the adjustment of business inventories to the slow decline in prices which began about a year ago. During 1948 nearly 2.5% of the gross national product, or about $6.5 billion, went into increasing inventories. During the second quarter of 1949, inventories were reduced at the annual rate of $2.8 billion. Drawing down inventories made if possible for business concerns to supply consumers with goods at about the same rate as in 1948 while producing at a lower rate.

There is good reason to believe that the period of inventory adjustment is nearing an end. For about six months consumption has now been exceeding production. There have been sizeable reductions in the physical volume of inventories, especially in the non-agricultural part of industry. Inventories are getting close to the point where the rate of buying by business enterprises may be expected at least to equal their rate of sales. What are the immediate business prospects? Does the end of the inventory adjustment mean that there will soon be a resumption of the post-war boom? Or is the recession likely to enter a new phase and to become substantially deeper? During the period of inventory adjustment, production and employment have been well sustained by large expenditures on automobiles, industrial plant, equipment, and housing. Will the recent high rate of expenditures on these goods continue much longer? If these expenditures drop substantially, will not the country be plunged far deeper into recession? How will the devaluation of the British pound and other currencies affect the economy? Will it strongly reenforce deflationary influences and thus intensify and prolong the recession? How would widespread stoppages of production in the steel or coal industry affect business? Would they produce a drop in production, employment, and incomes from which the country would not easily and quickly recover? These are the questions with which my remarks will deal.

II

One may assert with some confidence, I think, that the end of inventory adjustment will not result in the resumption of the post-war boom. I mean by boom a tendency for demand to be substantially greater than supply, so that the economy is threatened with a disorderly rise in prices as in the latter half of 1947.

It is true that many of the makings of a boom are still in existence. The accumulated needs for many goods are even today very large, the liquid assets of individuals and business enterprises are enormous, the debts of individuals and business enterprises are low in relation to their incomes and to their assets, the rate of spending of individuals in relation to the size of personal holdings of cash and demand deposits is still little more than half the pre-war rate. If individuals were to spend their cash as rapidly as in 1939, they would produce a strong upsurge in prices.

I do not expect a sudden rise in the rate of spending. During the last phases of the post-war boom, business was sustained, as I have pointed out, in considerable measure by the accumulation of inventories by business concerns. Unless there is a substantial rise in the rate of buying by individuals, enterprises will not seek to make a large increase in their inventories as they did in 1948. I do not expect a substantial rise in the rate of expenditures by individuals for consumer goods. Though needs are still enormous, they are no longer particularly urgent.

The declining urgency of needs is indicated by the change in the relationship between expenditures for consumer goods and personal incomes after taxes. Up until about the fourth quarter of 1947, expenditures on consumer goods were increasing faster than personal incomes after taxes. Between the fourth quarter of 1944 and the fourth quarter of 1945 there was a slight decrease in personal incomes after taxes but individuals increased their outlay for consumer goods by an annual rate of $13.8 billion. Between the fourth quarter of 1945, and the fourth quarter of 1946, there was a rise of $1.76 in expenditures for consumer goods for every dollar rise in personal incomes after taxes; between the fourth quarter of 1946 and the fourth quarter of 1947, a rise of $1.06 in expenditures for consumer goods for every dollar increase in personal incomes after taxes. Between the fourth quarter of 1947 and the fourth quarter of 1948, however, incomes after taxes increased much faster than outlay for consumer goods — indeed, expenditures for consumer goods increased only 54.4 cents for every dollar rise in personal incomes after taxes. This low rate of spending during 1948 partly reflected abnormal conditions—the postponement of consumption in anticipation of lower prices or bettter quality of goods. Nevertheless, there is no mistaking the fact that the disposition to spend had been slowly dropping for three years prior to 1948. Since this trend represents a drop in the urgency of demand, it is not likely to be sharply reversed.

III

Is the present high rate of expenditures on automobiles, plant, equipment, and housing likely to continue much longer? Is there not likely to be an early drop in these expenditures and will not this drop bring about substantial further decreases in production and employment? In other words, is the inventory adjustment through which the country has been passing only the first phase of the present recession? Is the real recession still ahead of us and will it soon begin with a large drop in expenditures on automobiles, plant, equipment, and housing?

Some time within the next five years the country may have to go through a difficult readjustment produced by a drop in expenditures on various types of durable goods, such as automobiles, plant, equipment, and housing. I do not expect this adjustment to come during the next year—although within that period a drop in some of these types of outlay, such as expenditures for automobiles, is likely. This drop, however, would not be large and would be more than offset by increases in other types of spending. Hence, I do not believe that the recovery from the present recession will be prevented by a decrease in expenditures for automobiles, plant, equipment, and housing. Let us analyze briefly the prospective demand for these types of goods.

The urgency of the demand for passenger automobiles has been dropping for some time and will continue to drop. For over two years the prices of cars were too low to equate supply and demand. At present, demand and supply seem to be roughly in balance. Unless there are early reductions in the prices of cars or at least a moderate rise in incomes, the output of cars will drop. Of course, a decrease in the price of foodstuffs will help sustain the sales of cars. In any event, the decline in the sales of cars is not likely to be large as long as personal income remains at about its present level because the number of over-age cars is very large. The average age at which cars are scrapped has been estimated at about 12.5 years—though improvements in car construction may have raised this age. At any rate, in midyear 1948 there were 5.2 million cars over 12.5 years of age and 2.6 million more within a year of this age. Furthermore, the scrappage of cars in 1948 was only about half of "normal," if 12.5 years is accepted as the average life of a car. Hence, an abnormally large replacement demand will remain for a year or more.

The present rate of expenditures on plant, equipment, and housing are abnormally high by past standards, but no early substantial drop in these expenditures seems likely before the middle of next year at the earliest. In the second quarter of 1949, there was one dollar of expenditure on plant, equipment, or housing for every $6.96 of gross national product in comparison with a dollar of expenditure for these purposes for every $7.33 of gross national product in 1929, for every $9.63 in 1939, and every $8.69 in 1940. Nevertheless, I do not expect an early substantial drop in any of these types of outlay. One of the three types, expenditures on non-residential private construction, has been abnormally low. Last year these expenditures were only 3.1% of the gross national product — a slightly smaller proportion than in 1940, when non-residential private construction was 3.2% of the gross national product, and only slightly larger than in 1939 when non-residential private construction was only 3.0% of the gross national product. In 1929 non-residential private construction was 4.9% of the gross national product. Non-residential private construction is not likely to drop very much from the present low level.

Expenditures on producers' durable equipment are abnormally high. In the second quarter of 1949 they were 8.0% of the gross national product; in 1948, 7.9%. Back in the boom year of 1929, expenditures on durable producers' goods were 6.2% of the gross national product. No early large drop in outlays on producers' durable goods seem likely because accumulated demand is still great and the need of enterprise to reduce production costs is large. New and better equipment is the most promising way open to most concerns to get down their costs. Although no early large drop in expenditures on producers' durable equipment is likely, one should bear in mind that the present rate of outlay is probably higher than will be indefinitely sustained.

Expenditures on housing also seem likely to remain high, at least for a year or so—possibly much longer. The figures on housing are far from satisfactory. It is estimated, however, that between 1940 and 1948 the number of dwelling units in the United States increased by about 7.6 million. This allows for destruction, demolitions, and conversions to nonresidential uses. In the same period the number of families increased by 6.9 million. About 1.7 million of the dwelling units were provided by subdividing existing houses. The quality of many of the dwelling units produced by subdividing existing units is quite uncertain. Undoubtedly many of the dwelling units added in this manner must be regarded as temporary.

The strength in the demand for housing has been one of the outstanding features of business during 1949. In the first quarter of the year new housing starts were 5.7% below the first quarter of 1948; in the second quarter, 5.6% below the second quarter of 1948. During the last three months, however, new housing starts have been running above the corresponding period of 1948. In August, they were 12% above August, 1948.

Underlying the sustained demand for housing is a large increase in population and a significant rise in the birth rate. The decade of the forties will see the largest increase of population in the history of the United States—a gain of roughly 19 million. This upsurge in the growth of population has made all recent estimates of population growth obsolete. For example, the country today already has more people than the Temporary National Economic Commission assumed it would have in 1960. Even the population forecasts made by the Census as late as 1945 are badly obsolete, because the country today has nearly 4 million more persons than the Census in 1945 estimated it would have at this time. The rise in the birth rate shows no signs of subsiding, because births in the first half of 1949 were slightly larger than during the first half of 1948.

One way of judging whether the present rate of expenditures on plant, equipment, and housing is abnormally large is to estimate the rate of such expenditures which the economy can be expected to sustain in the long run. In the second quarter of 1949 expenditures on plant, equipment, and housing were running at the annual rate of $36.8 billion a year. It is reasonable to expect plant and equipment to increase by a rate of 3.0% per worker a year. I have made a rough estimate that industrial plant and equipment at the end of 1949 was about $290.5 billion, or $5,350 per worker outside of government employment. If plant and equipment per worker were increased about 3% a year, and if the net increase in the work force were 600,000 per year, net new investment in industrial plant and equipment of roughly $12 billion a year would be required. If replacements ran about half again as much as new investment, as in the past, gross private investment in industrial plant and equipment would run around $30 billion a year. To this should be added some expenditures on housing to provide for the increase in population and the replacement of old housing. These might run about $4 billion or more a year. The total outlay on plant, equipment, and housing which may be regarded as "normal" from the long-run point of view is, therefore, at least $34 billion—not far below the present amount of gross private investment.

The view that the recession in business will not be aggravated

by a drop in expenditures on automobiles, plant, equipment and housing presupposes that the other principal forms of expenditures, such as the outlays of local, state, and federal governments for goods and services and the outlays of individuals for consumer goods in general will not drop. As a matter of fact, I expect these two other forms of expenditures to rise. The defense outlay of the federal government will continue to rise for a number of months to come. Expenditures by local and state governments are steadily climbing and may be expected to continue to rise. The accumulated need of communities for schools, hospitals, roads, bridges, and other public works is very large. Next year the pressure for much-needed outlays for modern highways will be greater than ever. With over 7 million trucks obstructing traffic, enormous expenditures on roads are inevitable. Hence, government outlays during the next nine months will be larger than during the corresponding period of the previous year. Included in government spending are the large special insurance dividends which will be paid to veterans early next year.

Expenditures of individuals for consumer goods are likely to become a larger proportion of total personal income after taxes. During 1948 and the first quarter of 1949, the ratio of expenditures for consumer goods dropped relative to incomes after taxes. As a result, personal savings increased from an annual rate of roughly $6.7 billion in the first quarter of 1948 to an annual rate of about $17.1 billion in the first quarter of 1949. The figures on savings are not entirely reliable, but it seems clear that the increase in personal savings was substantial. In the second quarter of 1949, however, the rate of saving was moderately below the first quarter. The drop in the rate of saving is likely to continue because the large volume of saving during recent months was based undoubtedly upon the decision to see how far prices were likely to fall. If individuals could be persuaded to reduce their saving to an annual rate of about $13 billion a year, or approximately 6.7% of personal incomes after taxes, purchases of consumer goods at present levels of income would rise by about $3 billion a year or about 1.7%. Such a rate of saving would be about half way between the rate prevailing in the second quarter of 1948 and the third quarter of 1948. It would be slightly above the average rate for the year 1948.

IV

Does not the devaluation of the British pound and other currencies make all of the above analysis obsolete? Do not these devaluations strongly reinforce deflationary influences? And are they not bound to push production and employment down substantially below present levels? My judgment is that the immediate effects of devaluation on the United States will be quite limited. There will be mild downward pressure on prices, but production and employment here will probably not be reduced. The long-run effects of devaluation will be favorable to the economy because devaluation will help establish more normal economic relationships between the United States and other countries.

One of the best things about the devaluation is that it has occurred and is over with. Hence, an important uncertainty has been removed for the time being. Another good thing about the devaluation is that it is fairly drastic and may, therefore, in conjunction with other devaluations and Marshall Plan aid, meet the needs of the world for at least the remaining period of the Marshall Plan. So great is the technological superiority of the United States however, and so great is the capacity of this country to improve methods of production that devaluation of other currencies may be needed every few years.

The immediate effect of the devaluation is to raise the price of American exports to all of the countries which have devalued their currencies and to reduce the prices of goods produced by other countries in American markets. This will encourage desirable shifts in world trade. Devaluation is likely to affect American exports more quickly than American imports. Imports into the United States are limited by a considerable variety of conditions—the ability of other countries to produce goods or to spare them, the American tariff and customs regulations, the lack of adaptability of foreign goods to the needs and tastes of Americans, the reluctance of Americans to buy goods on which they may not be able to get satisfactory service. If prices in British currency were to remain unchanged, the British would need to increase the physical volume of goods sold to the United States by over 40% in order to earn the same number of dollars when the pound is priced at $2.80 as when it was priced at $4.03. Such a large increase in exports cannot be expected to occur at once—although for a few weeks the British may receive large orders based upon the demand which accumulated while people were waiting for devaluation to occur. At any rate, foreign countries are likely to have fewer dollars to buy goods from the United States in the immediate future than they possessed a year ago.

There are three principal reasons for believing that the immediate effect of the devaluation of the pound upon the American economy will be limited. In the first place, devaluation comes at a time when inventories are low and when buying by business enterprises has been less than their rate of sales. Under these circumstances expectation of lower prices cannot produce much added postponement of buying. In fact, it can hardly prevent the rate of business buying from rising to the rate of sales to ultimate consumers. In the second place, devaluation comes at a time when decreases in prices are needed to stimulate consumer buying in the United States. American concerns have been reluctant to go after business by cutting prices, and substantial price cuts have been confined to relatively few commodities. The availability of foreign goods at lower prices will stimulate at least a small amount of price cutting in the United States. This will be desirable because it will help to maintain production and employment in the economy as a whole. In the third place, the surplus of exports of goods and services from the United States over imports of goods and services into the United States is only a small fraction of the gross national product. In 1948 the surplus of exports of goods and services over imports was $6.3 billion or 2.4% of the gross national product of $262.4 billion; in the second quarter of 1949, the surplus was running at an annual rate of $7.3 billion, or 2.8% of the gross national product which was running at an annual rate of $256.1 billion. One cannot expect devaluation immediately to eliminate the surplus of exports of goods and services over imports. Perhaps it might cut the surplus in half. That would be equivalent to an increase of about 1.4% of supply in relation to demand. A change of this magnitude would not have great influence on the economy as a whole, though the impact upon specific industries might be considerable. One should bear in mind that any success of other countries in selling to the United States will simply increase their demand for American goods.

V

Is there not danger that a large and prolonged strike in the coal industry or the steel industry would plunge the country into a recession from which it would not easily recover? Certainly a large and prolonged strike in either of these two industries would sooner or later produce substantial unemployment and a large drop in incomes and in the immediate demand for goods. I say this despite the fact that the country's ability to limp along with insufficient supplies of essential goods is greater than most of us suspect. I do not believe, however, that a severe strike in the coal industry or the steel industry would produce a recession from which the country would have difficulty in recovering. The state of business is fundamentally determined by the willingness of individuals and business to buy goods. This willingness is determined by accumulated needs, new desires, the volume of liquid assets, the volume of debts, judgments concerning investment opportunities, and the general appraisal of the future. Some of these determinants of the level of business would be affected by a prolonged coal or steel strike, but none of them would be affected to a very substantial extent. Others would not be affected at all. To some extent a prolonged strike would even increase the demand for goods because it would give needs a chance to become more acute and make people more willing to draw upon liquid assets or go into debt in order to acquire goods. I do not minimize the undesirability of prolonged stoppages of production of coal or steel, but I do not believe that the effects of these stoppages would last long beyond the stoppages themselves.

VI

This analysis leads to the conclusion that the immediate outlook for business is the maintenance of substantially the present levels of production and employment with the underlying movement slowly upward. The reduction of inventories is about over. This means that business buying will soon have to rise to the current rate of consumption of goods. No substantial drop in expenditures on plant, equipment, and housing is in sight. Government expenditures will continue to rise and individuals will spend on consumer goods a moderately larger proportion of personal incomes after taxes. Unless business concerns seek more aggressively to increase their sales, however the recovery will not be as complete as one would like to see it and unemployment will probably hover around 3.5 million. This is good by prewar standards but hardly satisfactory by postwar standards. The time has come therefore, for the country and businessmen in particular to consider how the rate of spending by individuals and business concerns can be stimulated.

Bradschamp Co. Formed

HOUSTON, TEX.—Bradschamp & Co. has been formed with offices in the Union National Bank Bldg. to engage in a securities business. Officers are Victor Dykes, President; John B. Carter and J. H. Freeman. Mr. Dykes was formerly with Russell Berg & Co. of Boston.

Monasch & Co.

SAN FRANCISCO, CALIF.—Monasch & Co. is engaging in the investment business from offices at 256 Montgomery Street. Partners are David Monasch, Jr., general partner, and Sam Sobel, Albert Davis and Philip Diller, limited partners.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market has become a very narrow market with fairly pronounced price changes (in both directions) taking place on light volume. . . . The professionals continue to dominate the restricted activity in Treasury obligations, and this has made for fast and in many instances seemingly meaningless movements in quotations of government securities. . . . Prices are quoted down and buyers that become interested in purchasing issues as the market recedes report only a few securities are obtained in what appears to be a weak market, based at least on the course of quotations. . . .

On the other hand, when prices are moving up, sellers indicate only limited amounts of securities are disposed of because buyers back away from not too sizable offerings. . . . This type of market action probably means the technical position of the market is not favorable and it will no doubt take more time to correct the indigestion which seems to still be mainly among the smaller professional operators. . . .

INVESTORS WARY

The easier money policies of the authorities resulted in higher prices of Treasury obligation, but a sizable amount of this buying was by the "quick profit group," which always makes for a certain amount of market instability. . . . In the earlier stages of the market advance these operators could take profits and cut down positions, because there was a large enough investment demand to absorb this liquidation and still move quotations ahead. . . . Price weakness on those occasions turned out to be buying opportunities. . . .

At the present time there is not this same feeling of confidence about prices of Treasury obligations, especially the ability to push them ahead sizably from prevailing levels. . . . Therefore, investors are not inclined to go all the way out on the limb and make large commitments in the more distant Treasury obligations. . . . They are more disposed to wait and see what is going to happen in the economic picture before taking action one way or the other. . . .

INTEREST RATES SEEN STEADY

It is believed in many quarters there will be no important change in the level of interest rates, unless the business pattern is worsened by strikes. . . . Accordingly, many investors have adopted a cautious, wait and see attitude which reduces the activity and volume in the government market. . . . Professionals on the other hand, can cause some wide price movements on limited activity but these changes generally do not have a pronounced or lasting effect upon the main market trend. . . .

Although there are vociferous followers of the opinion that lower money rates are purely a question of not too much time, the action of the government securities market itself seems to indicate the bulk of those interested in the money markets do not share that opinion. . . . If there was no doubt as to still easier credit, it seems as though prices of Treasury obligations would not be backing and filling within the recent trading area on restricted volume. . . . Ample funds are available for investment but in the case of the deposit institutions these are being put largely into short-term obligations, because of the uncertainty that appears to shroud the government market. . . . If prices have about reached peak levels, and are in a plateau, the tendency will be for many investors to confine commitments in the longer end of the list, to the filling in of maturities. . . . This would no doubt curtail the activity in the higher income eligibles. . . .

BANK MARKET OPERATIONS

Commercial banks have been making selective purchases of needed issues for maturity purposes, with the longer partially-exempts, the 2s due 1952/54 and the 2½% due 9/15/67/72, among the most prominent commitments. . . . Even the large money center banks have been among the important buyers of these securities. . . . The amount of bonds bought has not been large because these institutions have not been in the mood to step up bids. . . . Blocks of the higher incomes would most likely be well taken but not too many of them have shown up in the market so far. . . . Also the pick-up in loans, which has been fairly sizable, means the commercial banks are not under the same pressure to put funds into the government market, as in the recent past. . . .

Savings banks have not been as active, either as buyers or swappers, and this accounts in a large measure for the uncertain market action of the restricteds, especially the nearer eligible bonds. . . . The demand for the 1952 and 1953 eligible taps still seems to be sizable, although some money market followers believe these bonds have been bulled a little too much, especially when compared with the Vics. . . . Life insurance companies continue to be inactive as far as the ineligibles are concerned. . . . As for the bank issues small amounts of the longer maturities are reported to have been sold by these institutions. . . .

INCREASED ACTIVITY IMMINENT

Income tax collections have tended to restrict somewhat the activity of the deposit banks in the government market. . . . This, however, should be passing shortly, and as a result more action is expected in the market from the commercial institutions. . . . This should make for greater buoyancy in the bank list.

S. S. Pierce Co. Formed

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—S. S. Pierce Company has been formed with offices at 133 Brookline Avenue to engage in a securities business. Officers are: Roger Preston, President; Vassar Pierce, Vice-President; Wallace L. Pierce, Vice-President and Secretary; and Samuel C. Brown, Treasurer. John T. Lang will be a member of the firm's staff.

Now H. C. Denison Co.

SHEBOYGAN, WIS.—H. C. Denison Co. has been formed to continue the investment business of Homer C. Denison, Security Bank Bldg. Officers are Homer C. Denison, President and Treasurer; Harold F. Huibregste, Vice-President and Assistant Secretary, and Lucy M. Horn, Secretary.

Some Rules and Other Advice In Security Salesmanship

(Continued from page 4)

many salesmen do not mean to be impolite—It's the careless actions of impoliteness that occur most frequently—but at the same time they are impolite, and that doesn't do any good for their accounts.

When you go in to visit an office, don't put your hat on the desk of the person you are calling on. I saw a film strip a short time ago designed to educate manufacturers' salesmen on how to sell. In this film, the manufacturer's salesman enter a dealer's office and the first thing he did was to plunk his hat right down in the middle of the desk. I thought that the fellow who wrote the film strip might, himself, learn a little bit about diplomacy and being a gentleman when you are out trying to get business.

Don't put anything else on that customer's desk that you aren't using at that moment in your solicitation. If any of you have ever had a job behind a desk, where you are terrifically busy, you know that everything that lands on that desk necessitates some attention and some work on your part, no matter what it is. The work comes on the top of your desk and if you've got a busy job you don't want your desk cluttered by other people coming in and putting things on your desk that don't belong there, so you realize that a salesman doesn't make a very favorable impression when he does that.

Another: Keep your feet on the floor, and don't scatter ashes all over the place. Someone asked me whether it is okay to smoke when you are soliciting an account. I see no reason why you shouldn't, in most cases. It may be polite to ask, "Do you mind if I light up a cigarette," and offer one while you are doing that.

I don't think it is well to leave cigar butts on the ash trays on other people's desks. It doesn't add anything to the atmosphere. Get rid of your cigar butts somewhere else. A cigarette doesn't get all chewed up as a cigar does, so that may not be so important, but on little details like that, be careful not to create a bad impression.

Everything you say, and everything that you do in front of the person you are trying to sell makes some kind of an impression. That will be either a favorable impression, or a bad one. Consciously, or unconsciously, the accumulation of these impressions is adding up in the customer's mind and he is either tending to do business with you or, for some reason, he doesn't want to do business with you and wants to get rid of you, so these small but specific things that I'm talking about now are either contributions toward a favorable impression or else they take away from it.

Another polite thing to do is always to acknowledge an order, and to thank your customer for it. You go out and spend quite a bit of money and you like the sales person to thank you for giving him that business. It meant something to you to make that purchase, to commit yourself for that amount of money, and you like to think that when you favored a certain person with that business that he appreciated it, because you could have taken it somewhere else.

So, in your own selling, it doesn't take much time to call a person up, just say that you've got the order and "Thank you very much." If the customer is from out of town, somewhere, drop him a small note. If you get the order when you are in the office, be sure to thank him for it before you leave.

"Don't Argue"

I won't spend much time on the next "don't." It is "Don't argue." There, again, you get this factor of repression. You might be the best logician in the world and you might be able to win a lot of these arguments, but in winning them you certainly don't fan up much enthusiasm on the part of the loser to continue to do business with you. You have repressed him, to a certain extent, and he doesn't like it.

"Do not bluff." Don't try bluffing, it really won't get you anywhere. You may be lucky enough to get away with it a couple of times, but one time you are going to get caught. When a person buys what you have to sell, he doesn't want to think that the man with whom he is doing business is trying to bluff him on any point at all, so don't bluff them.

If you don't know the answer to a question just say that you're sorry that you don't have that information at the moment, and that you will get it for them. There is nobody in any line who knows everything about it; and the customers do not expect you to know all about it. So, when you get a question that you are stuck on some point with, just say, "That's something that I can't answer right now but I'm sure I can find out about it. We have a research department and I'll get that information for you and give it to you."

Here is a very important point: Never talk about one of our customers to another customer. That is very bad business.

You call on Mr. Brown. You do some business with him. Then you go to the next town, or the next block, and you talk with Mr. Smith. Smith says, "What is Brown doing these days?" Don't tell him.

I'll tell you why. In the first place, Mr. Brown doesn't want you discussing his business with other people. Brown is going to find out about it. I don't know how he does it, but eventually he is going to find out that you are discussing his affairs with somebody else. So you lose Brown's business when he finds out. Then you will also lose Smith's business because Smith says, "Well, if this fellow tells me about Brown, he is going to tell Brown about me, so I guess I won't tell him anything," so pretty soon you are known by your customers to be someone that they can not confide in, so they don't tell you anything.

"Don't Misrepresent Yourself"

Another "don't" is not to misrepresent yourself, your company, or what you are selling. Otherwise, it's going to come back at you. There may be a tendency, sometime, when you are trying to close a sale and you have had a very bad week and you feel that this fellow is just on the point of buying, and you just say something that isn't quite true. You misrepresent a stock, or a bond, or whatever it is that you are trying to sell him, just to get him to buy.

You make a mistake when you do that because usually he is going to find out about it and when he does find out that you said something that isn't true—even if you didn't mean it—say you took a guess at it, but it wasn't true—he isn't going to place any more orders with you. You have lost business.

All of these factors that I am discussing now constitute some of the reasons why salesmen lose business day in and day out the year round, continually. They are very simple things but sometimes it's the simple things that the customer picks up most quickly and says, "Nothing doing, I'm not going to do any more business with that representative."

Try not to talk superlatives continually. You'll notice that a lot of advertising, especially over the radio, is talking in superlatives all the time and you, as a listener, know that such talk loses its effectiveness, so when you go out and talk in superlatives all the time, "This is best," and "That is best," pretty soon your sales talk loses its strength, because you have put everything up at the one level and they discount everything you say.

If you have one very important point about your own house, or about a particular investment, or stock, or bond, or service that you are going to sell, work up to that and let that be the one superlative thing you talk about, but don't kill it by bringing out a lot of other superlatives too, because if you do that one important point will lose its selling strength and you won't have anything to trade on.

"Don't Lose Your Temper"

"Never lose your temper." You would think any salesman would know that, but there are plenty of salesmen who run up against customers who come out with points that aren't quite correct. The salesman knows they aren't right and he starts going back at the customer and the first thing you know the salesman has lost his temper. When he does that he loses the sale and, usually, the account.

You must be diplomatic in your sales relations. You can't go around arguing and losing your temper with other people. Even though for an instant you may satisfy your own ego, in the long run you will have lost out because you lose the business. And what does the salesman try to accomplish? He doesn't go around trying to inflate his own ego by winning arguments with people, he goes out to try to get business. Even if you have to crawl and creep a little bit, and if the fellow makes a point that you know is wrong, if it has no great pertinence upon your sale, what do you care? What's the difference? You get the order, and you get your customer, and that's what you're after. So do not sacrifice business for small personal victories. Actually, it doesn't do you any good. It doesn't earn you any money, and that's what you're after.

Here is one more "don't": Some salesmen adopt the "pity poor me" attitude in selling.

It's the weakest type of solicitation in the world where you try to sell something because of yourself.

You know that you, yourself, don't spend money because of the circumstances of some other salesman who happens to come up to you and starts telling you about his personal situation. You buy something because you want it, or because you feel that you have a need for it. You don't buy it because of personal relations.

That's enough of those negative points. They bear observing.

Be An Intelligent Counsellor

The next general selling point is that you should strive as hard as you can to be very efficient and intelligent financial counsellors.

Remember that you are not just out selling certain stocks, or out selling certain bonds. What you are doing, actually, is building up investment programs on the part of institutions and on the part of individuals.

To be the counsellor type of salesman is to approach your selling job with the problem approach. You don't go out and try to sell certain issues, you approach people from the point of view of their problems and you try to solve those problems for them with what you have to sell. It is a personalized approach.

Here, the point that comes first is the welfare of your prospect.

When I first got out of school I was earning $45 a week, back in the depression, and I was very glad to be getting that, and I was contacted by a person that I had worked for in the summers for a while, and I owed this man no obligation—I had been selling for him during the summers—he was now selling insurance and after I got this job he found out about it and he came over to see me and try to sell me an insurance policy.

I told him how much I was making and gave him some other information that he wanted. He went back to his office and he was going to submit a proposal to me. He returned in about a week with his proposal. This was during the depression years when you didn't know how long your job was going to last anyway, and you were lucky to have a job. So, he came back with his proposal, and the premium I was supposed to pay every month was $45. That would be one week's pay out of every month for insurance. Isn't that rather high? I don't know too much about insurance but I thought that was high. He tried hard to sell it to me. Well, I backed away from that just as though it were a hot anvil, and I have never bought anything from that person because I received the impression that this man didn't care so much about me, he was just out selling policies, simply trying to make some money through me. When I did buy insurance I bought it from another chap who never exerted any pressure, or never tried to oversell me.

This second man wanted to know how much my obligations amounted to, contacted me with the problem approach, a personalized solicitation, and with a really sincere interest in my overall welfare. He was naturally the fellow who got the business.

In building up your business, with each person you contact, before you go into his office you should plan out what you are going to try to do with that particular account. Of course, it often happens that you are unable to do any specific planning until you have made the contact, until you find out what the circumstances are, and what are the particular interests of your prospect. But in that kind of an approach you go in to tell him what your business is and that you would like to advise him, if you may, of what is going on in the investment field. Perhaps you say that you would like to try to interest him in investing some money in this field, and then you gather all the information you need concerning what his commitments are, what his obligations are. Then you are able to prepare a very nice plan from the point of view of that person's long-term welfare, or that institution's overall income and security, whatever it is, and then go back and don't try to sell him "A" stock, or "A" series of bonds, or any one particular issue, but sell him an investment program, over a period of years, that will build up his estate for him.

The point here is that of being a financial counsellor to people, just as the second insurance man was to me, the one who took a really sincere and friendly interest to bring forth something that would be of benefit.

At the present time you have certain accounts. Ask yourself what you are doing for the benefit of those accounts. You might say, "Well, that's okay, but listen, I'm working for myself. What about my benefit?" Well, your benefit will come from being aware of doing something for their benefit, because you certainly are not one-show salesmen, you are building accounts, and the way to do it is strictly from their point of view.

"Overselling"

Here is a tie-up with what we were discussing a moment ago about talking too long. It is "Overselling." Do you think that in your own work you have a tendency to oversell, or undersell, or don't you know, or have you ever considered it? What I'm about to say is a little bit complicated. I'm going to cut hairlines here, but try to bear with me.

Overselling is bad. I'll tell you why it's bad. If you oversell during a solicitation you create doubt on the part of the listener while you're overselling. If you were the listener you would say to yourself, "Why does he have to push so hard and do all this selling? There must be something the matter here, something wrong. If this is as good as he says it is he doesn't have to dress it up as much as this, or go on as long as this," and so overselling will bring a reaction against you of doubt, hesitation and a wondering of why you have to put so much beef into your sales solicitation.

Overselling, again, might tax the patience of a listener.

On the other hand, if you undersell just a little, you give the impression that you've got something pretty good. "If they don't take it, somebody else will. Maybe they ought to take it." There is a tendency in our lives to want what we can't get.

Now, I am not saying that people buy because of reverse English, as far as stocks and bonds are concerned, but there should be a tendency to undersell rather than oversell, because it is better in the long run. You will do more selling that way.

Here is where I'm splitting hairs. At the same time, you can't go in and not expect to give a complete solicitation on what you have to sell. You do give a complete solicitation, but you don't oversell by talking too long, or pushing too hard, or putting the pressure on, because that is where you will overbalance it, and you are not doing yourself any good when you get beyond that line.

Just where that particular line of demarcation is between doing a complete and thorough job of soliciting and yet not being guilty of overselling is something that only your own judgment can teach you, and your own experience, but out in social life, out anywhere, you may get next to someone at a dinner or someplace like that and they get to harping away on one subject and for a while you are interested and then you get to the point where you want to move away. You've had enough. You've had too much of it. And the same thing happens in sales solicitations.

Remember that there is such a thing as degree of acceptance on the part of a buyer. You may go into one bank and that buyer may be all ready to buy a block of municipal bonds, or government bonds from you. Well, as soon as you start talking with him you gauge the amount of his acceptance to what you are trying to sell and you can see pretty soon that all you have to agree on is just exactly how many he wants and when he wants to pick them up.

In that case, you don't go on and give a complete solicitation. You don't have to. The buyer is sold already. You will sometimes meet this passive buying acceptance on the part of your customers. When you meet with that, just pick the order up. Don't go into a long talk. Don't give a long solicitation.

Buying Is a Positive Action

Buying, on the part of any per-

son, is a positive action. It is an affirmative commitment. It is, "Yes," they are going to do something. There is nothing negative about it.

The negative end is, "No," they are not going to buy. Now, if you are going to move people to take a positive action—and that is what you are trying to do—your attitude and your selling story must be positive. One positive factor leads to another. Negative factors lead away from buying.

So, don't talk about negative things when you are making the call. You talk about the favorable points of what you have to sell. You talk about a person's savings, or an institution's funds working for them. You talk about the potential income. You talk about security. You talk about the possibility of appreciation in the value of what they buy. You talk about all these things that a person likes to think are going to happen. Does that make sense?

You certainly do not allow the conversation to linger on how the market went bad the other day, or how so and so didn't make out so well when they bought this issue, and things of that nature. Whenever you get into a subject like that in the conversation, get it out of there just as soon as you can, because that persons mind dwells on those negative elements and the longer he dwells on that the farther away goes his buying attitude.

There are certain plus points that you have to sell that somebody else hasn't got. If you don't have them, then that means that you haven't found out what your strong selling points are. But you, yourself, or your house—I mean the house you work for—or the particular securities that you may specialize in, there are some advantages connected with those things that you can talk about.

They are plus, affirmative, points, things that are above your competition, and if you talk in that way you will find that you will be led into sales sooner.

How to Sell Against Friendship Competition

"How to sell against friendship competition." Certainly, you all run into that. You are following-up on a buyer and he tells you, "Well, we give all our business to so-and-so. He's a good friend of mine." Well, of course, the businesslike thing to do is to try to become such a friend, yourself, because if you are really a strong friend of a person you certainly have a favoring point in obtaining his business.

But if you are not such a friend, there are certain things that you can say that may get you some business. In the first place, you and I both know that friendship in business covers a lot of sins. It really does. That fellow that you call on who has given his business to another chap, inwardly he may wish to heaven that he didn't have to. He feels an obligation there.

Bear in mind, when somebody tells you that they are giving business to a friend—you might tactfully bring this point up, and say, "Well, Mr. Brown, it isn't safe to put all your eggs in one basket." And it isn't!

Your strongest point is this: Business decisions are not made from any sentiment, friendly sentiment. A business decision should be detached from any kind of sentiment, and I'm sure you will all agree with that.

Suppose you were going to buy an automobile and a friend of yours said that he would allow you $1,200 on your old automobile. You would like to give him the business. But then a stranger came up, and he would allow you $1,500 on your old car. To whom are you going to give the business?

Your sentiment, or your friendship, might make you want to give the business to your friend, but his boss wouldn't let him give you more money in the allowance, so it would be betther, from your point of view, to take the larger offer.

Well, if some account of yours is losing out by doing business with a friend, they may be a lot better off if they give you the business. There are a lot of friends who get business from accounts who are not doing a good servicing job on those accounts. They are holding them purely because of friendship, and they figure to themselves, "Well, I don't have to work on that account, I'm going to get it anyway," and because they're taking it so easy on that account they arent doing a good job of financial counseling and servicing and if a stranger came in there, you, for instance, you would probably do a much better job because you are new. You knew that you had to hold the account by being on your toes and alert, and giving him good servicing.

One question that you might put into your prospects mind, in a very tactful way is, "Just who is benefiting from that friendly relationship, the friend or the buyer? Who is getting the most benefit out of it?", and somehow get them to thinking about that, because, as I say, a lot of friendship business, the man is becoming too cozy about it and isn't doing a good servicing job. He may be just riding on the friendship.

Certainly, it is a lazy, insecure way for any buyer to buy, simply by depending on a friend. If you were paying a buyer $8,000 a year to buy things for you, you certainly wouldn't expect him to place his business, with your money, simply from the point of view of friendship because you would know very well that some of that business was not your best buy.

So if you can somehow get that buyer to thinking that maybe the friend is getting the best of that relationship, and also that he is being a little bit unbusinesslike in placing his business purely from friendship, without sampling the rest of the market, without finding out what other good buys there are, he might be missing an awful good bet, and that is exactly what you have to sell him.

A Lot of Business Not Being Tapped

On the other hand, I feel that there is a lot of business that just isn't being secured by the investment salesman today, that there is a potential market that isn't being tapped, and that you don't only have to go around and take business from other people, that you can develop some business that isn't being placed at the present time.

There is a law of disuse that applies in selling. The law of disuse, applied to a man's thinking, is that he forgets things. We don't retain things. Try to think back to the time when you were going to school and try to remember the names and faces of all of your teachers or professors. There are probably a lot of them that you don't recall.

Now, you think back and try to recall a number of the points that I brought out in my lecture last week, without referring to your notes, and I'm sure there are a lot of them that you won't remember.

That very excellent sales canvass that you gave on Sept. 12 to that person, you brought out everything in the book, as far as you were concerned, how many things do you think he remembered? He will do very well if he remembered two points that you told him, and yet you might have told him ten at that particular time.

The principle involved here is that you've got to repeat your selling points. Make an initial contact and make a really good call, and if you're feeling fine when you go out and get an appointment to come back and talk to him a week from now, when you go back to see him again, give it to him all over, because he's forgotten almost everything you said.

He may have a good general impression, and he wants you to come back, but in the meantime there have been a lot of things happen, and a lot of other salesmen come in, maybe a lot of your competitors, and they can make a good talk, too.

So, when you go back in there again try to refresh his memory.

Repeat Strong Sales Points

It is always true, during the course of one sales canvass, that you repeat your strong sales points and that you can't expect him, at the conclusion, to sum up things all by himself. Remind him of your particular points.

Say that you are selling a trust fund. There is a certain description of the diversification feature of that particular fund, or whatever it is, a particular thing that you feel is a good selling point, so you will hit that again at the end, and you hit those other two or three points, in summarizing, before you ask him, "Mr. Brown, can we put you down for a couple hundred shares of this fund?"

You have got to do, as I said before, a lot of his thinking for him, and repeat your strong sales points. One of our members here used to be a teacher, and I know he will agree with me that you have got to repeat things if they are going to sink in. Selling is educating, so you have to repeat things, when you are selling, if your prospect is going to be able to remember them.

In order to get the person into the mental frame of mind where he is going to say, "Yes, I'm going to buy what you recommend," you've got to get the need firmly registered in his mind. He has to feel the need of it. You realize that you, yourself, do not go and spend your money on things unless you feel that you want them and that you have need for them. It is the same with the person who is buying something from you, and in order to build up that mental condition in his mind where he is aware of the need for this thing, where he thinks he is going to benefit from it, you have to repeat these things, to get them firmly registered.

The next point is a most important one. You know that in selling you put forward an idea that is accepted and agreed upon by your buyer. You start out in the morning and you go over to see a prospect, and what do you go there for?

You have in the back of your mind the fact that it would be a good idea if he owned some of these shares. Say that you are selling a particular block of bonds or something. Well, you think that it would be a good idea for him to put them into his investment program.

You go over to see him, to get him to agree with that idea. So, what are you doing there? You are transferring your thought to his mind, getting him to accept your idea and to agree with it, the agreement being his commitment to buy.

When we go about trying to influence other people to adopt our ideas, our buying ideas, we don't simply hammer them in by sheer force. You don't do that. You can't go and grab the man by the collar and say, "Now, you're going to buy this!"

Work by "Suggestion" on Indirect Action

You *suggest* to him that it would be well if he accepted this idea that you are putting forth. You do it indirectly. You suggest! What is suggestion? Remember I said that there were few definitions in this series? Well, this is number two:

Suggestion is an indirect presentation of a matter for consideration or action. In other words, it is an idea from the outside that a person accepts, uncritically, and he allows that idea to motivate him to a certain action.

That is what selling is. You present an idea, from the outside, that he accepts, uncritically, and he commits himself to take a certain action. So, suggestion has a great deal to do with selling. It is a tactful, indirect way of manipulating the opinions of your buyers. You suggest different considerations to him, in different ways. What you suggest is logical. It has interest for him and, because you do it in a nice way, he accepts your good suggestion and he acts on it.

The salesman doesn't go around and force people to do things. We do not deprive others of their mental freedom at all. What we try to do is to get them to do things by this means of suggesting.

When a person is emotionally aroused, he will take action more quickly on suggestion. We can all think of instances to illustrate that.

The insurance man comes in and talks to you and in a very indirect way he talks about the future conditions of your family if you were removed by death. He uses the fear motive. He makes you think of your wife and your two or three children and of what would happen to them if you were not there to bring in so much money every month to pay the rent and buy bread and butter. He presents that to you in a very forceful way and you think of that.

"Well, you never can tell, something might happen to me," and say you have $10,000 of G.I. insurance and you might have another small policy, and he says, "Well, is that going to last very long? Your wife is going to be forced to go to work." Well, he gets that into your mind and it is easier for you to take his buying suggestion when you are emotionally upset.

There is another point on this problem of suggestion. If the person believes that the suggestion originated from a very strong source he is more apt to accept it. If you told some person, up in Boston, that the First National Bank of Boston bought into this issue very strongly because of certain features, it would be a suggestion that might be very readily accepted, because you have traded the suggestion up to a very strong institution in New England, so that if you can suggest in such a way that the prospect believes the suggestion originated from a very authoritative source, your suggestion will be taken more easily.

Now, there are various ways of making suggestions. We don't have the time to go into this very deeply, but I'll try to bring out a few.

One is by question. "Do you think it might be a good idea to do such and such?" or "What do you think of the possibility of—," —and then bring out what you are going to say; or, "What has your reaction been to these open end types of funds"?

Introduce the suggestion by a question.

Another means of accomplishing your end is by reference to a similar situation somewhere else. For instance, "most of your customers have realized 20% appreciation on this particular thing," it can be something like that or, again trading up to a big institution that did something with reference to another situation that has been successful.

There is such a thing as a direct suggestion, that is tactfully made. "Might I suggest that you include in your expenditures for this month so many shares of such-and-such," a direct suggestion, that is another way of doing it.

Well, so much for suggestion, gentlemen. It is very important to your work.

Another general principle concerns "Selling a new account." There are certain things to remember about that.

You can rarely expect to close on your first solicitation. Don't expect to go in and knock off a new account with your first visit. Don't be disappointed if you fail to do that. You must do some work in order to get the new account.

On your subsequent calls, you present new information. Don't give everything out during your very first call. You have a selling campaign laid out to garner this great big new account that you are working on—I know that he isn't going to remember everything you said the first time, but at least have something new, some point that it brand new, when you go back the second time, something that would add to your first selling talk, and you must add strength to it.

"Don't Shoot Your Whole Bolt At One Time"

You are going to build this up as you go along. Don't shoot your whole bolt the first time and then find that you have nothing left to work up to.

Now, when you are out after a new account, you build yourself up. You build your house up. And you build up the service, or the product that you are selling. these three things. You can't expect to go in and get the account on just one.

You talk about what you have to sell, and you talk about the people that you work for, and you talk about your services and the interest you will take in that account.

I recommend that you don't hound the account too much. You may say, "Well, all right, I went to see that fellow on Monday. When should I go up there again"? Well, just when you should go there again depends upon how long a talk you had with him and a lot of other factors. But do not hound him because in that case he'll think that you are too hungry. And when he thinks you're to hungry he'll think, "Well, this fellow isn't getting much business. He's not the fellow I want, to handle my account." So, keep after him but don't hound him too closely.

After you get your first order from a new account, you have really just started, because your first order is when you just start to go to work on that account.

The buyer might say, "All right, this fellow has been after me for quite a while, he's a nice chap, he certainly has something good to sell, and he comes from a good house. I'll give him an order and see what happens."

Well, what happens is what you do. In the first place, you thank him for the order. You see that the order is put through right, and that an acknowledgement is sent back to him, and you service him. Give him a lot of service and he'll figure, "Oh, I'm not getting all this from the other salesman. Maybe I should give this chap more business."

I'll just state the last general principle. It is an old story to you but it may be brand new to your prospect, so tell it to him.

We have been talking about general things having to do with selling. Now, the first step, or the first basic part of any sale is the preparation of the salesman for selling.

From now on, we're going to discuss the sale from as technical a point of view as we can make it and certainly the first part in any sales transaction is the preparation of the salesman himself. Everything in selling begins and ends with the salesman himself. So, the first basic part is the

(Continued on page 24)

Some Rules and Other Advice In Security Salesmanship

(Continued from page 23)

preparation of yourself for the job of selling.

"How to Win Friends"

In any activity in life, the human factor is the most important. We are going to talk about how you adapt yourself into the role of the salesman, how you can adjust yourself, mentally, to do a good selling job, and a lot of other things that have to do with the integral part of a salesman for his own self.

We'll begin by knocking out one school of thought on selling. It is the "How To Win Friends" school of how to get along in the world and become a great personage, and this school relates these pithy bits of philosophy to selling.

This book came out a while back and if you'll remember it said that the thing to do to be a successful salesman is to go in and shake hands with the customer and then ask him about his hobbies. Talk about the paneling in the office. "This paneling is just wonderful. The fish on that wall, up there, how did you ever catch that fish," "—and you, yourself, I have been an admirer of yours for a great many years, sir, —I have, Sir!"

You talk about the prospect and his hobbies and his family and this and that about him, for hours and hours and hours. You become a spineless flunkey. You lose all your personality and your own strength, and you just evaporate down to somebody that is kneeling before the high and mighty.

Ah, but then, eventually, this social meeting — you can't call it a solicitation—this social meeting between the two parties ends, and you grab your hat and start out. You are almost out that door when the prospect says:

"Hmmm, by the way—What are you selling?"

"I'm selling canned orange juice."

"Send up — 84 carloads!"

Well, in my own career of selling I haven't seen business gotten that way, and I feel that some salesmen are being fooled if they believe that is the right way to do business, picturing the buyer as a sentimental egotist who buys only from the people who butter him up, and picturing the salesman as a spineless person who does nothing but cater to the whim of the people he calls on. Selling is not like that today. The salesman has strength and character, and personality. He offers something. He brings something with him. He is on the same level as the buyer.

You go from strength to strength, and you don't start with weakness. Many of the customers you are going to call on are professional buyers, professional investors. They have been trained a long time in the methods of committing funds for investment.

You are a specialist in the other end of the business, just as technically qualified and just as ably trained. The salesman is a specialist in the distribution of things, on a par with the buyer, who is a technical expert in the commitment of funds.

There are numerous levels in the selling performance, just as there are many levels in other walks of life. There is a highly-paid corporation lawyer, and there is an ambulance chaser. There is a doctor who is a highly-skilled surgeon, and there is another who is a pill dispenser.

In selling, there are the peddlers and the investment salesman, as representing the higher type of salesmen.

Levels of Selling Performance

But in the investment business there are also various levels of selling performance. Many salesmen are satisfied with their initial ability, as far as selling is concerned. A lot of salesmen accept quite early in life the fact that they are trained, accomplished salespeople, and they don't advance any farther in their technical ability to get business.

Well, the people in law, and the people in medicine and the other professionals who attain the highest levels, they do not get there by being satisfied at an early date with their level of accomplishment. The same thing is true for salesmen, but if you think you are a good salesman now, two years from now you should be a much better salesman.

Selling depends upon quite a few factors, and we'll review some of them right now:

The first is our natural aptitudes. I do not go along with the idea that there is such a thing as a born salesman. The "instinct" school of psychology leaves me cold, anyway, as far as selling is concerned. Your selling ability depends upon the environment you expose yourself to, and your adaptation to the career of selling, and your adjustment to the qualifications of the job, and a lot of that depends upon your own learning and your own training, as far as aptitudes are concerned. Some people are better adapted for sales jobs than others. There are no born salesmen, but the fellow who is of the extroverted type of personality is better adapted to go out and about and meet people and suggest and persuade them to buy, than a highly-introverted type of person, who may be shy and reticent and not given to a great deal of social intercourse.

At some time in life a person has to make up his mind, finally, what he is going to do in this world. Your decision has already been made, and if it has been made finally, then don't go back and review that decision. Don't ask yourself, "What in the world am I doing in selling? Maybe I don't belong here at all."

If you have finally made up your mind that this is your job, don't worry whether it is or not, because there is enough to worry about in selling without worrying about whether you should be doing it. You can not have in the back of your mind the thought that "I ought to quit and get out of this game. I ought to try something else." If you have that in your mind, that thought will reduce your selling ability. It will shadow your confidence. It will distract your attention. And if you are entertaining that thought, do something about it. Either quit or decide, finally, that this is your life and then forget about it and concentrate on selling. Don't split your mental energy between all the problems of selling, itself, and the continuing one of questioning yourself about your own career.

Aches and Pains

We all know, if we have been selling for a while, that there are a lot of aches and pains to this job, and that lots of times we lose good customers through no fault of our own. There are a lot of disappointments, a lot of discouragements. A lot of times maybe we think we should be getting credit for a certain account and for some reason beyond our control we are not getting credit for it.

Some of these things are beyond our control, but any salesman who is going to be successful must realize that that is just part of the game. It happens to every salesman. It is part of the job of selling, all these delays and lost orders, and lost accounts, and that sort of thing, so that a person must prepare himself mentally to realize that he is due to receive a number of very discouraging setbacks and disappointments in his career as a salesman, but he must not take them personally, and everyone who is selling is subject to the same disappointments.

That is especially true of new fellows—that they have to adapt their mental attitude to be able to take stuff like that and then go out the next day and be better than they ever were before. You've got to live above all that. You have to lift yourself up and know and realize that if you lost one good account there is another better one around the corner, and you know that because you have been working that way, because you haven't been putting all your eggs in one basket.

People in selling certainly should know that this job can pay a proper reward, both from the point of view of money and from the point of view of emotional satisfaction, pride in accomplishment, self-satisfaction in doing a good job, praise from your boss, and from your community, in having done something in the business world that is very worthwhile.

We are talking here about the mental attitude and outlook of the salesman who is out every day looking for business, that he has to be convinced, deep down within himself that he is doing something that he is adapted for, and that will pay him what he wants, that will bring him what he wants out of life, and to summarize for a moment, your success as a salesman depends upon your ability, your natural tendencies toward this type of work, the amount of training that you permit yourself to be exposed to, and the amount of ambition that you have, yourself, those four things.

You might think that, according to nature, we should be able to start singing in a natural way any moment we choose, but a person just doesn't do that. He has to learn how to sing naturally. He must be trained in proper breathing, proper phrasing, in tone, and the use of the resonant chambers in your body. It is a paradoxical situation that we don't do things in a natural way the first time. Why we should not, I don't know, but we have to learn from others, who have, in turn, learned through a great deal of trial and tribulation and error and general experience, the right way to do things.

Another example is when you pick up a golf club and go out to try to swing that club in the right way to hit the ball 250 yards down that fairway. There are lots of ways we swing that are not right. Someone has to teach us.

It is the same thing in salesmanship, that no one can expect to grab his briefcase and put on his hat and just start out on a career of selling and expect to sell correctly, all by himself. We just can't do it that way. You must learn how to sell correctly, and you either learn by yourself over a long period of time, through trial and a lot of error, or you are exposed to some good principles of selling that you adapt to your own use.

A salesman must have an objective approach toward his work, and toward his customers. If you are too highly sensitive about your relations with other human beings, you had better quit the selling game. That is the introverted type of thinking, where you relate everything back to the subject. You can't think that way, in selling. You must think very objectively.

There are a great number of things that you must learn to ride over rough shod in selling if you are going to be successful.

There is the matter of abstract intelligence versus social intelligence. A salesman in this field certainly must have abstract intelligence, but he must also be socially intelligent.

I do not mean, necessarily, that you have to be a hale fellow-well met, loud greeter, but you must be able to ingratiate yourself quite easily with groups of people.

Proper Adjustment to Your Job

You can't kid yourself very long. As far as selling is concerned, if you have made an improper adjustment to your job, if you have not fit yourself into the work that you are doing, you split your energy and find a substitute medium to direct your energy to, as the man who has a job but spends most of his time in his community as a boy scout leader or a leader of the local dramatic society, something like that, I believe most of those people — I don't say all of them, but most of those people have done that because they are not as successful as they meant to be in their primary work, so that to compensate for being stuck at one level and not getting ahead in the business world, they have allowed their energy and creative ability flow to some outside medium of expression.

If you don't adapt yourself quite thoroughly to the job of being a salesman, you are going to find yourself doing a lot of other things that are not part of your work. A lot of your afternoons are going to be directed, perhaps, to the ball club, or to the golf course, or to some other place, and I don't say that we all shouldn't go there once in a while, even on working time, but I mean that that should not become your habit. But you can not kid yourself and if you have not adapted yourself properly a barrier is produced in front of you, and you slide away from it one way or the other.

A Defense of Investment Trusts

(Continued from page 11)

with investment dealers. But because the bankers stood back of marble railings in mausoleums, these trappings often endowed their advice with a potency out of all proportion to the value of it, particularly if the investment dealer in deference to a sound overhead structure operated his own business from modest quarters. However, in the presentation of investment trusts you can clothe your story with considerable appeal and glamour by detailing the fact that the managements do nothing else but watch statistics, economic trends and markets and accordingly should be experts in this field, all of which is true. For instance, one investment trust can build an appealing story around the antiquity of their investment counsel—Roosevelt & Son—being careful, however, hastily to explain that it is the Oyster Bay Roosevelts, unless the locale happens to be a mine or mill town. This is, of course, a feeble attempt at humor on the writer's part.

The practical difficulties confronting investment trust managements, however, are highlighted in your own publication when frequently qualified economists, confronted with the same set of economic forces, arrive at diametrically opposed conclusions as to the future and perhaps in parallel columns on the same page. The diversity of opinion in so-called market letters and among statistical advisory services is notorious.

Because the over-the-counter people have always been the underdogs of the investment business, and because of necessity they merchandise their securities instead of merely executing orders, the over-the-counter man in the main is a better rounded and more competent individual than the customer's man. By the same token, the Negro athlete who reaches the top usually outshines his white competitor because he has succeeded the hard way. But in a race between the over-the-counter man and the customer's man for the client's patronage, his own personal superiority is frequently insufficient to offset an electric board, a news ticker, a battery of so-called market letters, a patter about the Dow Jones rail average confirming the industrial average, whatever that may mean, and above all a listed security. Luckily, the over-the-counter man can arm himself with an investment trust if he wants to tip the scales more evenly in his favor, as after all he may have a wife and a family to support, also.

And one of the more amusing phenomena of the times is that customer's men, with all their inherent advantages over other segments of the investment business, are turning to investment trusts even though the solicitation of such business would seem to be incompatible with all their training, instincts, habits, and conceivably even their long-range income opportunities. But once the customer's man enters this field all his advantages evaporate and the superior energy and ability of the merchandiser assert themselves.

There is a danger, as I see it, that the success that the investment trust people have met as distributors, particularly in recent years, and created to a certain extent by the cautionary psychology that has possessed the public since the deterioration of stock prices that set in in 1946, may cause them to forget the admonition of the Scriptures that "pride goeth before destruction." For years the investment trust people knocked fruitlessly at the doors of rugged individualists among the securities fraternity, only later to find that when the stage setting turned in their favor the payoff even among the most adamant distributors became gratifying. Without the lash of an uphill fight to popularize investment trusts, the managements may retreat into a smugness and concentration in sacred cows and fashionable securities at the cost of missing the larger opportunities that might exist among securities that give the investor more current value and income for his money and have their future ahead of them. There is such a thing as a security being so rich that its price structure becomes vulnerable to external financial forces, beyond the control of the company, as every holder of so-called gilt-edged bonds and preferred stocks has found out cyclically over the last 50 years.

I want to take this opportunity to commend the articles by Mr. Dutton which appear regularly in your publication. I have found them invaluable in helping to cope with the multiple problems confronting the practical side of security distribution at the present time.

Very truly yours,

C. J. STUBNER,
Stubner & Co.,
Union Trust Bldg.,
Pittsburgh, Pa.

Savings Banks' Policy in Meeting Lower Interest Rates

(Continued from page 11)

decline in tax revenues incident to the business recession will increase the Federal deficit of the current fiscal year to several billions. The Treasury may logically be expected to give support to a low interest rate policy when it is confronted with the need for raising large amounts of new money, as well as refunding.

One must conclude that, so long as business activity remains below the peak of a year ago—and production is down almost 15% from last fall—economic forces, Federal Reserve credit control policies and Treasury policy will all favor low interest rates. I refer, of course, to the level of long-term interest rates, and not to day-by-day market fluctuations that could well run counter to the main trend for brief periods.

A further decline in interest rates from the prevailing low level will raise fundamental problems for mutual savings banks. The majority of savings banks in this state now pay a dividend rate of 2% to depositors. The banks are earning enough to cover their operating expenses and to pay this dividend, with a modest margin to spare. This would not be the case if the average rate of return now realized on earning assets should decline to any considerable extent.

Long-Term Bonds, Protection Against Lower Rates

Because mutual savings banks are savings institutions, they can with propriety and safety hold long-term earning assets. Hence, they can protect themselves from the adverse effect upon earnings of a decline in interest rates far more readily than can commercial banks which hold short-term securities and loans against demand deposits for the most part.

It may be suggested that mutual savings banks can offset a reduction in earnings caused by low interest rates through cutting their operating expenses. The fact is, however, that savings banks are now operated quite economically. That the services and facilities they provide are desired by depositors, we know from long experience; and their curtailment would seriously inconvenience the public we serve. The cost of promotional efforts and advertising to encourage thrift and the accumulation of savings is modest. Further mechanization of bank operations would reduce operating expenses but little, and could not possibly offset any material decline in earnings realized on investments because of a decline in interest rates.

The solution of the problem of coping with a further decline in the level of interest rates lies in the continued holding of long-term investments that provide an adquate return to the bank, even though interest rates in the market should decline further.

The protection of the present level of earnings by holding sound and suitable long-term investments is good savings banking, especially in an era of declining interest rates. This is far sounder procedure than sacrificing quality to secure higher rates of return. I am certain that savings bankers will not permit the quality of their portfolios to decline unduly to secure greater yields.

In the light of the outlook for continuing low interest rates and the possibility that a further small decline in yields from present levels will occur, I should like to discuss briefly the problems of government bond investments, corporate bond investments and mortgage lending.

Government bonds remain the chief class of bond investment of mutual savings banks. By and large, savings banks did not liquidate their government bond holdings on a wide scale during 1947 and 1948, as did other classes of institutional investors. The government issues held by most savings banks are relatively long-term, yielding an over-all return of well over 2%.

These long-term government issues today all sell at substantial premiums, reflecting the fall that has taken place in the level of interest rates. Should interest rates decline further because of a downturn in business or expansionist credit policies of the Federal Reserve banks, the premiums would become larger. Tempting as it is to "take profits" when large premiums appear, banks must weigh the consequences in the shape of reduced current income during a period of declining interest rates. The sale of bonds yielding over 2% to reinvest the proceeds in short-term issues involves a loss of around 1% in return. Unless reinvestment of the proceeds from the sale of longs is possible on an attractive basis within a relatively short period, the loss of income in time will more than offset the apparent benefit of realizing on the capital gain from the sale of long-term governments at a premium.

Long-Term Governments Should Be Retained

It is true that savings banks could have made handsome profits by selling long-term governments when the market was high in the spring of 1946, and by reinvesting when long-term bonds had dropped to prices near par in 1947. But is there any reason to feel that a new period of inflation and credit contraction lies immediately before us, such as developed in 1947-48? Many careful observers forecast that opposite conditions—recession and aggressive easy money policies—are more likely to be encountered over the period ahead.

If there were prospects that the Treasury would be offering soon new long-term bonds at par, that might be a valid reason to take profits on some long-term governments when market premiums are favorable. But there is no indication as yet that long-term marketable bonds will be offered by the Treasury in the foreseeable future, either for new money or for refunding purposes. The current deficit is being financed through the sale of additional Treasury bills and tax savings notes. It has been reported that the longest-term issue considered for the December refunding operation is an obligation of approximately five years maturity. Such an issue would carry an interest rate no higher than 1⅜%. And there is no indication that the Treasury plans another offering of non-marketable bonds to financial institutions, to permit them to acquire long-term issues without paying premiums.

The mutual savings banks as a system did well to keep intact their long-term government bond portfolios in 1947 and 1948, while other investors were selling freely and buying short-term issues. They would do well to hold long-term governments now for the higher return they give, even though we recognize that the premiums above the recent "peg" prices may decline from time to time with the usual fluctuations of a relatively free market.

When the proceeds from the sale of long-term government bonds can be reinvested in attractive alternative investments giving a substantially higher yield, switches are well-advised. But no problem is solved when longs are liquidated in wholesale fashion and the proceeds reinvested in shorts giving a small return, because we have no assurance that the loss of income will not more than outweigh the capital gain realized by the sale.

Yield of Long-Term Corporate Bonds

Corporate bonds, by and large, do not provide a solution to the problem of sustaining earnings of mutual savings banks during a period of low interest rates. The average yield of the triple-A corporation bonds included in Moody's index was 2.62% in August, while the yield from long-term taxable government bonds was 2.24%. To secure this additional return of 38 basis points, a savings bank would have to substitute obligations classified as "risk assets" usually of considerably longer maturity. While admittedly of high quality, such securities do not benefit directly from Federal Reserve Bank market support in the event of a reversal in the downward trend of interest rates. Such shifts may better be postponed for more advantageous spreads at times when expanding business activity swells the volume of new corporate bond offerings so that yields rise, as happened in the postwar boom period.

You may wonder why corporate bonds give so small an additional return as compared with government bonds. The reason is to be found primarily in the investment policies of life insurance companies. Life insurance companies, as contrasted with mutual savings banks, are not so concerned about liquidity, since their liabilities do not consist entirely of deposits subject to withdrawal on brief notice. Moreover, life insurance companies are not concerned about market price declines on bonds they hold to the same extent as are mutual savings banks. Hence, they find a relatively small yield difference between high-grade corporates and governments generally attractive, which is not the case with mutual savings banks.

Taking Advantage of Amended Savings Bank Law

Mutual savings banks would be justified, however, in giving careful study to opportunities for securing higher yields with adequate safety from investments acquired under subdivision 21, section 235, of the New York State savings bank law, which permits savings banks to invest a limited amount of their funds in corporate interest-bearing securities not otherwise eligible for the investment of their funds. Adoption of this law by the legislature was in itself a testimonial of confidence in the management of mutual savings banks. It demonstrated the belief of the legislators and the bank supervisory authorities that given this broad grant of authority for investing outside existing legal restrictions, savings banks would make prudent use of the wider power given them.

It may well be that intensive study of opportunities will reveal that desirable investments giving a relatively higher rate of return can be secured via the private placement route, as the life insurance companies have found. The facilities and the organization of Savings Banks Trust Company are available to you for this purpose. With the cooperation of the Committee on Savings Bank Investments of the Savings Banks Association of the State of New York and the Savings Banks Bond Men of the State of New York, the Trust Company has been instrumental in securing the many additions to the legal list which have been approved by the Banking Board. It is a logical extension of this work to analyze opportunities for savings banks' investment under section 235, subdivision 21.

Expanding Mortgage Portfolio

The chief avenue for increasing the yield from savings bank earning assets at the present time is to expand the mortgage portfolio. Mortgages yield a considerably higher rate of return, on the average, than do high-grade corporate bonds. Hence, it is necessary to acquire a much smaller volume of mortgages to bring about a given rise in the average rate of return than would be the case if high-grade corporates were purchased.

Declining interest rates make it more difficult to secure mortgages, since other institutional investors bids for them more avidly along with savings banks. As builders turn increasingly to the construction of smaller and lower-priced houses, the volume of new mortgages becoming available is curtailed. Slower turnover of real estate and the constant reduction through amortization of outstanding mortgages also slow down the expansion of the mortgage supply. The Home Loan Bank Board estimates that the net increase in the volume of outstanding small home mortgages was only $1 billion in the first six months of this year, as against an average annual increase of almost $5 billion in the two preceding years. With the demand strong and the supply of new mortgages insufficient, it is obviously going to require intensive search and effort to secure acceptable mortgages in sufficient volume to expand portfolios.

An expansion of mortgage portfolios entails some lessening of liquidity. But mutual savings banks are highly liquid today. With cash and governments equal to about two-thirds of deposit liabilities, liquidity is clearly not a problem. We have built more liquidity into the mutual savings banks system in the past decade than it ever had before. Some reduction of liquidity for higher yield, provided average quality of portfolios remains high, would be justified in any event. It could become quite desirable in an era of declining interest rates.

Existing relatively high appraisals and the high ratio of mortgage loans to property values have given rise to misgivings which are reflected in the practice of setting up reserves against possible losses. The experience following past building booms would indicate that declines in real estate values could again occur. The general use of the amortized mortgage, however, provides a valuable safeguard to the lender that was not available in past building booms. Moreover, mortgage lenders can secure a large measure of protection against material losses through Federal Housing Administration insurance.

The volume of FHA-insured mortgage investments available for purchase in the national field is large. Although the volume of loans insured by the Federal Housing Administration declined this spring, applications for FHA insurance of mortgages on new single-family houses increased sharply in the second quarter. A recent amendment to subdivision 20 of section 235 of the banking law gives the savings banks of New York State direct access for the first time to the national market for FHA-insured mortgage loans. Currently these investment trust estates yield approximately 3.75% to maturity on multifamily dwellings, and on the smaller mortgages the yield based on a 10-year life is approximately 3.56%.

Conclusions

The fact of a continuation of low interest rates and the investment prospects for the future point to the following conclusions:

(1) Mutual savings banks would do well to safeguard yields in a period of declining interest rates, rather than to be tempted to sell out a major part of the bond account to take profits on bonds that go to premiums so as to reinvest in short-term, low yielding investments.

(2) Shifts out of long-term government bonds are fully justified when alternative investments of good quality giving considerably higher yields are available. The one justifiable basis at this time for realizing capital gains by selling governments is to reinvest the proceeds in sound, amortizing real estate mortgage loans which give sufficient additional yield to compensate for the reduction of quality and liquidity that is involved.

(3) Corporate bonds, by and large, do not offer sufficiently higher yields to justify large-scale shifts from government bonds, even though insurance companies, for reasons suitable to them, have done so.

(4) Further study may show that section 235, subdivision 21 will help savings banks to secure higher yielding quality investments over a period of time.

(5) Sound, amortizing real estate mortgages offer the most promising field for increasing yields through investment shifts, because of the wider spread between mortgage and government bond yields. However, intensive efforts will be needed to increase mortgage portfolios, since the institutional demand expands when interest rates decline, while the growth in the mortgage supply has slowed down from the rapid pace of 1947 and 1948.

All in all, savings bank managements have every reason for confidence that earnings will continue to justify existing dividend rates to depositors, even though some further gradual decline in interest rates might occur over the period ahead.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Richman Proskauer, limited partner in Jacques Coe & Co., will retire Sept. 30.

Henry Davis will retire from partnership in Faroll & Co. September 30.

Henry Mintz will withdraw from partnership in Joseph Faroll & Co. Sept. 30.

Interest of the late William A. Neubauer in Lamson Bros. & Co., ceased Sept. 2.

Henry B. Bruyn, partner in Morgan Davis & Co., died Sep. 9.

Transfer of the Exchange membership of John J. Cronin to Leonard A. Goldstone will be considered by the Exchange on Oct. 6. Mr. Goldstone will act as an individual floor broker.

Transfer of the Exchange membership of the late Robert D. Hartshorne to James J. Philips will be considered Oct. 6. It is understood that Mr. Philips will act as an individual floor broker.

Transfer of the Exchange membership of the late E. Poynter Schweppe to Morris Sprayregen will be considered Oct. 6. He will continue as a partner of Eisele & King, Libaire, Stout & Co.

John L. Hopkins Opens

PINE ORCHARD, CONN.—John L. Hopkins will shortly engage in a securities business. He was formerly with Smith, Barney & Co. of New York City and prior thereto was an officer of the Adams Express Co. of New York.

As We See It

(Continued from first page)

of countries have devalued their currency only in relation to the dollar and by identically the same amount, the obvious object — indeed it might almost be said the avowed object—was to improve the competitive position of the nationals of the devaluing countries (or in case of the socialized or semi-socialized countries, of the governments themselves) vis-a-vis the business man in the United States of America.

Not So Simple!

We shall, of course, not adopt the practice or repeat the blunder (whichever it is) of the political powers by pretending that this problem is as simple as the unsuspecting might gather from the current headlines, or even from what has been said in the immediately preceding paragraphs. The fact is that it is far from simple. It has its roots deep in the basic economic situation of the day, and in the political philosophies which in all too many instances now press down so distressingly upon the economic welfare of the peoples of the world. Nothing like a full analysis of all the factors bearing upon this issue could be undertaken here, of course, but there are a few fundamental facts and certain basic misconceptions now current which are too urgently in need of attention to be passed by.

First, let it be carefully noted that for these recent devaluations to work out in practice as they do on paper, prices in the devaluing countries must not rise. As things stand at this moment, the American importer can buy about 1,440 yards of textile goods in Britain for the number of dollars he has until recently paid for 1,000 yards. But if the price of these goods in sterling moves up, the advantage of the American importer shrinks by the amount of the increase. An importer in some country in which American and British textile goods compete, and in which the currency has been devalued by the same amount as sterling, can at the moment obtain from Britain 1,440 yards for the same price he would have to pay for 1,000 yards obtained from a producer in the United States, assuming other things are equal, but any increase in the sterling price of the goods in question would reduce by just so much the advantage enjoyed by Britain. Corresponding advantages, of course, accrue to the British buyer when he is able to obtain what he wants in some country which has devalued at the same rates as his own, and they vanish in the same way.

Other Considerations

But can these prices in devalued currencies be kept at the same level as formerly? First, let it be observed that the seller, whether in Britain or some other devaluing country, has a great incentive to sell in the markets of so-called dollar currencies if he can there obtain prices in dollars above a 30% discount from the price formerly received. If the reduction in the dollar value of these currencies really helps the exporters of these countries in the dollar markets of the world, it is, accordingly, more or less certain to oblige other markets to offer higher prices to compete successfully.

Certain other considerations can not be ignored, either. One of these is the fact that costs almost inevitably will move up as a result of these currency maneuvers. This is most notably true of those goods which must be made of raw materials obtained from dollar countries. Raw cotton from the United States or Brazil, for example, will henceforth cost the British importer 44% more in terms of sterling than it did before. There is virtually nowhere else in the world where this raw material may be had. So it is likewise with anything else which must be bought in dollar markets and which is essential in the production of goods for export. What is more, the raw material markets even in devalued currency countries must resist the upward pressure on prices exerted by dollar purchases if this rising cost element is to be held in check.

The Real Solution

Now let it be recalled that the hue and cry has been for years that many of these countries which have now devalued their currency "needed" or "had to have" many things from the dollar areas of the world, particularly the United States. If this is really true, and if the extent and imperiousness of this need has not been greatly exaggerated, there are definite limits to the degree in which foreign buying by these countries can be shifted to areas which have now devalued their currencies. Neither is it to be forgotten that the exports of a number of these countries, and particularly their exports of what might be termed key commodities or articles of commerce, have of late years been determined less by what they could sell than by the amount they had to offer to foreign buyers after what were regarded as minimum domestic requirements had been met.

We seem thus to be led to the conclusion that unless devaluation is accompanied or quickly followed by larger production and lower costs of production, the much publicized and dramatized collective devaluation coup is more or less certain to fail of its purpose. The situation is thus left very nearly where it stood before all this devaluation took place, since even then what was obviously needed was greater production at lower unit cost. In the mind of the thoughtful man, the further question is raised as to whether there exists any substitute for such production and such competitive efficiency.

Let Natural Forces Operate!

For our part, we do not see how any one could doubt that such production and such efficiency will and can be reached only if much more is left to natural forces and to individual initiative than is the case today. All this devaluation business appears to us to be hardly more than a way of trying to avoid a full and realistic facing of the elementary facts of international or, for that matter, of national economic life. These facts can not indefinitely be either evaded or ignored.

Lest there be misunderstanding, let it be plainly stated that need for reduction or elimination of tariffs and other barriers remains urgent — which, of course, is but another way of saying that natural forces must be left in play throughout.

Obstacles to American Capital

(Continued from page 5)

ties. Last year, new direct investments abroad amounted only to $800,000,000 and were concentrated in Venezuela, the Near East and Canada, and confined almost entirely to the petroleum industry. Portfolio investments were negligible.

The Accumulation of American Capital Funds

American funds are relied upon to provide waterworks and sanitation and tools in the far-off quarters of the world. American funds and know-how are sought in India, South Africa and the Middle East. The supply of funds is ample. Personal saving in this country is running at the rate of $16 billion annually. Institutional investors eagerly bid premiums for long-term debt obligations of business corporations bearing 2⅞% coupons. But funds for ownership investment are scarce. The spread between the cost of borrowing money and ownership money grows wider. What an anomaly it is to speak of elaborate developmental plans leaning upon private American capital when at the same time a small volume of equity financing of the soundest type in the most stable major industry is a matter of concern. When our electric utility companies have to pay 7 and 8% and more for their common stock funds in an easy money market, I hesitate to think of this as the world's great capital center. Funds are running to cover.

My good friend, the Secretary of the Treasury, in an address made earlier this month on the President's Point IV Program as a means of sustained prosperity, declared that "we all know that there are certain well-defined obstacles which have stood in the way of investment of American capital abroad. We also know that private capital will flow abroad more fully and produce better results when it is encouraged locally." Some of the obstacles are being removed; it is anticipated that others will follow. France recently removed hindrances against the withdrawal of funds. To make my point emphatically, I ask that someone tell me in what way there is greater virtue in putting dollars to work abroad than in this country, and how it is expected that Americans will invest abroad when they receive no encouragement at home.

Welcomes Foreign Placement of U. S. Funds

Lest there be a misunderstanding, let me add that I should welcome, under proper conditions, a tremendous flow of American funds abroad. The forerunner of success for the President's Point IV, paradoxically, is what I call my Point V which is a necessary prerequisite. Point V, which I first suggested some months ago, is nothing more or less than equity for equity capital. For equity investment in the United States we have asked for no special privileges. We ask merely for parity. Make no mistake about it, the choice which the American people, through their elected representatives, face is fair treatment for equity capital or socialization of industry by means of government financing.

The President has emphasized the part of private finance, in the supplying of developmental capital, but, as realists with a responsibility to stockholders, business executives have to bear in mind the experiences of the past growing out of extreme nationalism and difficulties of convertibility of foreign exchange. I maintain that the greatest obstacle to the investment of private capital—and an obstacle that treaties cannot overcome—is the shabby domestic treatment of domestic capital right at home. Let us clearly understand that.

The most optimistic estimate of foreign investment by the United States that I have seen is in the neighborhood of $2,000,000,000 annually. Assume for a moment a genuine era of peace and economic balance both at home and abroad, and this figure is doubled to $4,000,000,000 annually. Now turn to domestic investment and we find that this year plant and equipment expenditures for American business are running at the rate of $18,000,000,000 annually.

I make this comparison to emphasize again the overwhelming importance of a sound domestic economy. A high American national income and full employment in the United States are in no small degree responsible for recovery in Western Europe and for progress in Africa and Asia. It is at least hopeful that, as Socialist Chancellor of the Exchequer, a stubborn believer in the form of Socialism which Great Britain has embraced, Sir Stafford Cripps, declared in discussing the British Government's future policy: "We realize that conditions have changed in the matter of capital investment and that we must study the problems of incentive and suitable environment to capital investment." To me that reads like an important admission —a statement of the greatest significance and, incidentally, an honest statement.

Risk Investment Is Choked Off

Risk investment everywhere is choked off by swollen budgets and heavy taxation. In Britain, the proportion of government revenues amounts to more than 40% of the net national income, almost twice the 1938 proportion. In France, sums equal to 39% of the net national incomes pass through the government's hands, 50% more than in 1938. Even in Sweden, the government, like our own, collects revenues equal to about one-fourth of the national income, an increase over the prewar ratio of almost 100%. On the other hand, only France, in real terms adjusted for price changes, had increased the proportion of investment as a percentage of national income. Meanwhile, expenditures on social security programs and food subsidies have had a more prominent place. Making allowances for the terrible trials people abroad have been through and the temptations of governments to work out of their difficulties through what amounts, in the end, to hand-outs, I cannot help recalling the remark of one of our early humorists: "Let us all be happy and live within our means, even if we have to borrow the money to do it with."

The investment and taxation equation is equally fundamental at home. I do not believe that we or anyone else can square the circle. Ownership in industry cannot be forever discouraged and then be summoned forth to do heavy duty. I am compelled by circumstances to discuss briefly the main points of a study we recently published, called "Jobs and Taxes." Without going into details, we have proposed that a very modest beginning be made in eliminating the injustice of double taxation of dividend income. Secondly, we have proposed the reduction of obstacles toward risk ownership involved in our treatment of capital gains and losses. The plan has the virtue of simplicity.

Beyond that, it is unique in a very important aspect at this time when the country is wrestling with a deficit, largely due to international undertakings. Our plan does not involve the loss of revenue. We believe that, by encouraging increased dividend payments, reducing the impediments to the sale of capital assets and stimulating enterprise, the measures we advocate in reality would have the net effect of increasing the revenues of the Treasury.

This is not a plan to benefit a small group. We have recognized both the economic and political facts of life. For example: in spite of our conviction that cuts in the highest bracket returns would greatly encourage investment, we did not include this proposal among our formal recommendations for tax revision.

Even though we learned that if the highest bracket rate of individual income taxes were lowered to 70%, the indicated loss in revenue for the present calendar year would be only $61,000,000 and but $174,000,000 if the rate were 60%. We refrained from making this recommendation because, to be frank, we think that relief in the form of lower returns on high incomes should be combined with substantial reductions in excise taxes. In that way people in the lower income group would obtain a corresponding benefit.

I have already referred to the high quality of the leadership displayed in the joint formulation of

American, British and, I should add, Canadian plans in international economic affairs. I have faith that the same vision will be carried over into the handling of our pressing domestic problems. It must be.

The other examples of leadership come to mind. You all are familiar with the part which Alexander Hamilton played in establishing the credit of the United States in its early days and in unifying the nation. Most of us are old enough to remember, in our own time, the inspiring example of Raymond Poincaré. Less than 25 years ago, he successfully stabilized the value of the franc when fiscal difficulties threatened to lead the French nation to a state of chaos. Inside of a year he gave France one of the few periods of stability that it has enjoyed since the outbreak of the First World War.

Leadership in Domestic Scene

Courage and insight take on various forms and adapt themselves to the special needs of the moment. The overwhelming need now is a carry-over to the domestic scene of the vision recently displayed in the handling of the international crisis. The steps taken and contemplated to assist Europe and the rest of the world must be underpinned by a sound American economy. They will never achieve their objective unless the American economy is sound. The American economy will not be sound until industry has the benefit of a wide, even flow of equity funds. There is no insuperable obstacle in the way of obtaining this benefit. Let the Revenue Act of 1950 mark the beginning of a new period of sound business expansion in a balanced American economy.

This important legislation which is so fundamental can only materialize if the rank and file of the American people put their shoulders to the wheel to make it a reality. I need not remind you that the coming year is an important election year. Our elected representatives to both branches of the Congress, in whom the Constitution vests the authority to formulate tax policy, will be increasingly alert to their responsibilities. Tax measures are highly technical and sometimes needlessly involved. It is our responsibility to acquaint the American people with the facts and it is our equal responsibility to inform our elected representatives of our views on this important question.

I repeat my concluding remarks in an address I made in this very hotel on June 9 last. Equity for equity capital is the slogan in this venture capital campaign. I ask you to join with me in the interest of the nation's continued well-being.

Bosworth, Sullivan to Be N.Y.S.E. Members

DENVER, COL.—John J. Sullivan will acquire the New York Stock Exchange membership of the late Edward Roesler and Bosworth, Sullivan & Co., 630 17th Street, will thereby become members of the New York Exchange. Partners of the firm will be Mr. Sullivan, Dudley F. Baker, Arthur F. Bosworth, Harry T. Buchenau, J. Wallace Coxhead, Laurence T. Criley, Loring L. Hanscom, Bernard F. Kennedy, Frank N. Tschudi, Gerald C Wood and Paul E. Youmans.

Merrill Morong V.-P. Of Lucas, Eisen Co.

KANSAS CITY, MO.—Merrill C. Morong has become associated with Lucas, Eisen & Waeckerle, Inc., Columbia Bank Bldg., as Vice-President. Mr. Morong was formerly for many years with the City National Bank & Trust Co. of Kansas City.

The State of Trade and Industry

(Continued from page 5)

it would not be surprising to see some steel companies agree to put up 4¢ and 6¢ provided workers paid a cent or two on insurance and from 1¢ to 3¢ on pensions. There was even a possibility—but no more than a possibility—that the Board's figures might be met, with some kind of iron-clad qualification attached that would allow steel firms to retain their stand on a contributory plan, the trade magazine observed.

Despite restlessness of some union members and a mild rash of wildcat strikes, few of the rank and file realize that if pensions are agreed upon now they will not be payable until April, 1950.

Steel producers, who had feared the present high level of customer ordering was primarily hedging against a possible steel strike, are beginning to wonder whether their qualms were justified. Their customers are telling them, "The Iron Age" states, that the strike threat doesn't have much bearing on the situation, since their business has picked up and they need steel. This applies to automotive business, oil country goods, construction, household appliances, kitchen cabinets and so on.

The coal strike has them worried, however. They point out that the walkout with its resultant loss of purchasing power for the 480,000 coal miners and employees of railroads and other dependent industries who have been thrown out of work could conceivably reverse the present trend, concludes "The Iron Age."

Scrap prices generally marked time during the past week though a few markets moved up into balance with last week's advances elsewhere.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 84.6% of capacity for the week beginning Sept. 26, 1949, as against 86.2% in the preceding week, or a decrease of 1.9%, or 1.6 points.

The cut in the scheduled rate of steel operations was attributed to the banking of furnaces at some mills because of a threatened steel strike.

This week's operating rate is equivalent to 1,559,600 tons of steel ingots and castings for the entire industry, compared to 1,589,100 tons a week ago, 1,591,000 tons, or 86.3% a month ago, and 1,737,600 tons, or 96.4% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

CARLOADINGS ADVANCE IN POST-HOLIDAY WEEK

Loadings of revenue freight for the week ended Sept. 17, 1949, totaled 743,022 cars, according to the Association of American Railroads. This was an increase of 118,825 cars or 19% above the preceding week. It represented a decrease of 166,967 cars, or 18.3% below the corresponding week in 1948, and a decrease of 188,050 cars, or 20.2% under the similar period in 1947.

ELECTRIC OUTPUT DROPS BELOW PREVIOUS WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended Sept. 24, was estimated at 5,555,641,000 kwh. according to the Edison Electric Institute. This represented a decrease of 23,464,000 kwh. below the preceding week, 95,032,000 kwh. or 1.7% higher than the figure reported for the week ended Sept. 25, 1948 and 599,226,000 kwh. in excess of the output reported for the corresponding period two years ago.

AUTOMOTIVE OUTPUT CUT WITH DROP IN OVERTIME SCHEDULE

According to "Ward's Automotive Reports" for the past week, motor vehicle production for the United States and Canada declined to an estimated 155,134 units from 159,493 units (revised) in the previous period due to the dropping of overtime schedules.

The total output for the current week was made up of 127,588 cars and 20,290 trucks built in the U. S. and 4,829 cars and 2,427 trucks in Canada.

Although daily car production in the U. S. last week averaged 25,517 compared with 24,133 in August, there were indications of faltering sales, "Ward's" said.

Output a year ago was 98,394 units and, in the like period of 1941, 77,035 units.

BUSINESS FAILURES FALL IN PAST WEEK

Commercial and industrial failures declined to 169 in the week ended Sept. 22 from 185 in the preceding week, Dun & Bradstreet, Inc., reports. Despite this 8% decrease, casualties continued to be more numerous than in the comparable weeks of 1948 and 1947 when 101 and 73 occurred, respectively. However, they remained considerably below the prewar total of 239 concerns which failed in the same week of 1939.

Casualties involving liabilities of $5,000 or more accounted entirely for the week's decline, dropping to 128 from 144.

Wholesale trade had the sharpest relative decrease, to 17 from 25, while failures in other industries and trades were down slightly from the preceding week. More concerns failed than last year in all lines, with manufacturing casualties showing the most marked increase, rising to over twice the 1948 total for the same week.

FOOD PRICE INDEX OFF SHARPLY TO LOWEST LEVEL IN TWO MONTHS

The impact of foreign currency adjustments coupled with the beginning of the Fall livestock movement exerted a depressing effect on many wholesale food markets last week. This was reflected in the wholesale food price index, compiled by Dun & Bradstreet, Inc., which dropped sharply to $5.72 on Sept. 20, from $5.85 on Sept. 13, a decline of 2.2% in the week. The current figure is the lowest since July 19 when it stood at $5.71, and compares with $6.82 on the corresponding date a year ago, or a decrease of 16.1%.

The index represents the sum total of the price per pound of 31 foods in general use.

WHOLESALE COMMODITY PRICE INDEX SLIGHTLY EASIER THE PAST WEEK

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., displayed a slightly easier trend last week. The index closed at 243.38 on Sept. 20, as compared with 245.11 a week earlier, and with 278.72 on the corresponding date of last year.

Activity in grain futures on the Chicago Board of Trade increased sharply last week, especially in wheat and soybeans.

Wheat prices were stronger aided by good demand from cash and export interests and the resumption of buying by the government of the cash article.

Corn prices averaged lower after showing early strength. Factors in the decline were increased offerings of cash corn from the country and expectations of an early movement of the new crop. Despite frosts in some parts of the corn belt little damage of consequence was reported.

Demand for oats, rye and barley was quiet with prices easier. Domestic demand for flour remained slow although shipping directions increased and chain bakers were expected to enter the market shortly. Spot coffee prices rose to new high levels but futures turned lower in late dealings on the announcement of the devaluation of the pound sterling. Cocoa also reacted to the devaluation of sterling with a decline of more than a cent a pound. Sugar prices, both raw and refined, remained firm. There was some liquidation in cottonseed oil with values slightly easier. Lard prices were fairly steady and moved in comparatively narrow limits.

Cotton prices last week continued to move in a narrow range. The market was somewhat steadier most of the period but weakened at the close as the result of fears that exports might be reduced due to the sterling devaluation.

Sustaining features during the week included mill price-fixing induced by continued activity in the cotton goods market and unfavorable crop reports from the South where bad weather is interfering with picking and movements of the new crop.

Activity in spot markets expanded sharply with reported sales in the 10 markets totaling 344,400 bales, against 196,500 a week earlier.

Consumption of cotton during August rose sharply to 664,133 bales, from 455,106 bales in July, according to the Census Bureau. In August last year 728,863 bales of the staple were consumed.

Business in domestic worsted type wools in the Boston market reached a moderate volume last week; prices were very firm and demand in most cases met with limited supplies.

Considerable activity was reported in Western primary markets in both private trading and public auctions.

Offerings of wool in foreign primary markets were large with prices generally reported easier. Wool tops were in better demand with a continuing firming of prices noted. Imports of apparel wool at Boston, New York and Philadelphia in the week ended Sept. 9 represented 3,832,300 clean pounds, as compared with 2,730,600 in the previous week.

RETAIL AND WHOLESALE TRADE VOLUME SUSTAINED AT MODERATELY HIGH LEVEL

Consumer buying continued to increase in the period ended on Wednesday of last week, but it did not rise as rapidly as in previous weeks. The total dollar volume of retail trade remained slightly below that of the comparable week a year ago. Price declines from a year ago were generally responsible for this, states Dun & Bradstreet, Inc., in its current summary of trade. Unit volume of many goods was close to the level of a year ago, the agency disclosed.

Consumer demand for apparel did not vary appreciably from that of the previous week. Interest in women's sportswear and in children's clothing remained high. The dollar volume of apparel sales continued to be slightly below that of a year ago.

Stores offering men's wear sold slightly more than in the preceding week, with worsted suits at moderate prices sought by many shoppers.

Housewives purchased about as much food as in the previous week with the aggregate unit volume of many foods surpassing the comparable 1948 levels. Consumers continued to seek the inexpensive meat cuts. Pork and poultry were very popular. More fresh vegetables and dairy foods were sold than in the previous week. The demand for bakery goods rose slightly.

Retail volume of furniture and household goods also advanced moderately. There was a noticable increase in the demand for kitchenware and some electrical appliances.

Many merchants continued to stress low down-payments in their promotions.

Hardware and decorating materials were in increased demand.

Total retail volume in the period ended on Wednesday of last week was estimated to be from 2 to 6% below that of a year ago.

Regional estimates varied from the levels of a year ago by the following percentages:

New England and Midwest, —1 to —5; East and Pacific Coast, —2 to —6; South and Southwest, —4 to —8, and Northwest, +1 to —3.

A large spot demand again marked wholesale trading last week. There was also evidence of an increase in long-term commitments for some commodities.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Sept. 17, 1949, decreased by 7% from the like period of last year and compared with a decrease of 4% in the preceding week. For the four weeks ended Sept. 17, 1949, sales registered a decrease of 4% from the corresponding period a year ago and for the year to date a decline of 5%.

Activity in retail trade in New York the past week week was somewhat curtailed by the approach of the religious holidays. Department store volume was placed at about 13% under the similar period of 1948.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Sept. 17, 1949, decreased by 5% from the same period last year. In the preceding week an increase of 1% was registered above the similar week of 1948. For the four weeks ended Sept. 17, 1949, a decrease of 2% was reported under that of last year. For the year to date volume decreased by 7%.

NOTE—On another page of this issue the reader will find the most comprehensive coverage of business and industrial statistics showing the latest week, previous week, latest month, previous year, etc., comparisons for determining the week-to-week trends of conditions, by referring to "Indications of Current Business Activity," a regular feature in every Thursday's issue of the "Chronicle."

Taxation Impact on Public Utilities

(Continued from page 2)

incentive offered nor is there the opportunity for large personal estates to pass from one generation to another without the consequent effect that the past savings are either dissipated through government expenditures or bequeathed to Foundations or other tax-exempt organizations.

The second point I wish to make has to do with reducing or at least not increasing the present taxes on corporations. The dangers as a result of high or higher taxes on corporations are presently receiving nation-wide attention. It appears to be the consensus that any increases, if there are to be any, should be determined without unduly interfering with the prospects for continued business expansion and with assurance that profits, after taxes and dividends, will be sufficient for investments and contingencies.

I am personally not so sure that the dearth of equity capital can be traced to the tax burden alone, although, admittedly, it may be an important factor. It appears that the rate of return or the attractiveness of the earnings of common stock equities has more to do with this problem for the moment than the tax impact. This is particularly true in the public utility field. Also, there has been perhaps a mistaken idea as to the possible market area for equity securities. It now appears that the greatest potential market for the sale of equity stocks is to the groups in the lower income tax brackets. No less an authority than Emil Schram, President of the New York Stock Exchange, has advanced the view that risk capital must now be obtained from those with average or less than average income. What is needed is a new approach to the real market for the sale of equity securities at this time, and the recognition that utilities must have adequate earnings in order that their common and preferred stock be made attractive.

Double Taxation as Applied to Public Utilities

What constitutes "double taxation" has been the subject matter of considerable debate. Double taxation in its full sense is very difficult to prove in fact as I shall attempt to explain.

The reason for this is that if a corporation's income taxes are reduced or eliminated, the result may mean greater dividends. On the other hand, these savings may be diverted to the payment of higher wages and salaries or toward the reduction of the selling price of the product.

Therefore, it can readily be seen that taxing the income of a corporation and taxing the income of its stockholders to the extent of their dividends received may not constitute double taxation except in part. It also seems true that where the recipient of dividends from corporations is in the higher income tax brackets, the degree of possible duplication is considerably lessened.

Two methods for mitigating or eliminating "double taxation" most commonly referred to are as follows:

(1) Allow the corporation a deduction for dividends from taxable income, similar to the present bond interest deduction;

(2) Allow the stockholder a tax exemption for dividends to the extent that the corporation has already paid taxes on the income from which the dividends were paid.

Generally speaking, to permit the corporation a tax deduction for dividends from taxable income may well lead to increased dividends. However, in the public utility field the granting by the government of a "dividend paid credit" would undoubtedly result in such tax saving being passed on in time in the form of a reduction of the selling price of the product. As a regulatory requirement utility companies are permitted to charge taxes as an operating expense or at least all such taxes are treated as a cost of the enterprise for rate making purposes. If we assume any relatively fixed concept as to what constitutes a rate of return, this would certainly be the case. It may reasonably be concluded therefore that very little benefit would accrue to the utility companies' income status should there be a permissive tax deduction on dividends paid. To the contrary, such consideration may prove harmful because under regulation such reduction of taxes, as I have just stated, would merely constitute in the final analysis a reduction in the rates for service while on the other hand causing a substantial loss to the national revenues. These losses would have to be made up from other tax sources from which utilities could hardly expect to be exempted.

The second method seems to assure the stockholder of a tax advantage and indirectly prove to be beneficial to corporations. For example, if a credit were allowed to individuals for dividends received in computing their personal tax liability, it would make the ownership of common and preferred stock tremendously more attractive.

That there is room for improvement in this double taxation field is self-evident. It is most gratifying to observe that some servants of the public interest are aware of the injustices attendant to this matter. Senator George Chairman of the Senate Finance Committee in sponsoring relief on this matter stated that although the goal should be to exempt all dividends from double taxation, it would have to be a gradual process as the full impact would result in a loss to the Treasury Department of $2 billion annually. Senator O'Connor, Maryland, also is in agreement with the thoughts expressed by the Chairman of the Senate Finance Committee, stating that individual stockholders should be allowed a tax credit on dividends where the corporation paying the dividends already had paid taxes.

Discrimination

There are two types of tax discrimination that have serious effects on public utilities. One lies in the security field and of course is therefore applicable in part to industry in general as well as public utilities. The other has to do with the tax treatment accorded governmental and municipally owned utilities and other forms of tax exempt enterprises that engage competitively with privately owned utilities. First, let us consider the situation in the investment field.

The individual investor is interested primarily in two things: income and appreciation of his investment. With respect to appreciation, the Internal Revenue Code does not discriminate between the forms of corporate securities. Both bonds and stocks are capital assets and their appreciation is taxed as capital gain. In the matter of income, the tax law discriminates at the corporate level between income applicable to stock and income applicable to bonds by taxing the former and exempting the latter as a deduction from gross income. As a result, the advantage to the corporation of bond issues over stock as a means of low-cost financing is accentuated.

The really important area of discrimination, however, in the tax field against public utilities involves the exemption of municipally and governmentally owned utilities from the payment of taxes and the tax exempt status of other enterprises which engage in the utility business. Until such enterprises are taxed on an even footing with the privately owned companies, there is an enormous advantage to those who do not contribute to the support of government.

Discrimination goes beyond the elimination of taxes on publicly owned utilities. The Federal Government also exempts state and municipal bonds from taxation. The results are that long-term exempt state or municipal bonds are more attractive as an investment than utility securities, particularly to high income individuals. State and municipal power agencies are, therefore, in a position to float their securities at lower rates than can be obtained by the privately owned utilities.

The extent to which utilities in the electric field are owned by tax exempt organizations is shown by the attached chart, Exhibit "B." As the exhibit shows, in 1930 out of a total generating capacity in this country of 32 million kw., privately owned companies constituted 93.5% while the tax exempt groups consituted only 6.5%. In the year 1948, however, we find the privately owned groups constituting 80% of the total capacity as against the tax exempt groups of nearly 20%. The creation and growth of tax exempt enterprises undoubtedly represent the most serious of all the tax impacts in so far as public utilities are concerned.

Burdensome Taxes and Administrative Difficulties

Among the public utilities and railroads, there are a number of excise taxes which are by their nature inequitable and which in some instances are very burdensome and costly on the companies to administer. Outstanding among the taxes in this category, for example, is the Federal Electrical Energy 3⅓% Tax. Another tax in this category is the Transportation Tax. It may be well to briefly outline the difficulties concerning these taxes.

Federal Electrical Energy Tax

Electrical energy is a universal necessity. Excise taxes similar to this tax are not levied on other necessities such as water, food, rent, drugs, etc. The electrical energy tax is a hidden tax that increases the cost of electricity to the customer. The tax is imposed solely upon sales by privately owned utilities and not upon sales by municipally, or cooperatively, owned utilities. This imposes an unfair burden upon the customers of the privately owned utilities who ultimately pay the tax. No tax is levied on other forms of energy derived from coal, oil, gas, and other sources.

Electrical energy produced for self-use is not taxed and to avoid serious competitive discrimination, Congress imposed no tax upon utility sales to industrial customers. However, electricity sold for commercial use is taxed. This non-taxability of industrial consumption and the taxability of commercial consumption has resulted in uncertainty and confusion because it is often impossible to unscramble the commercial and industrial activities of a business consumer. Inspections must be made frequently and costs to the companies of administration are out of all proportion to the tax paid.

Transportation Tax

The Transportation Tax was imposed as a war revenue measure and it has served its purpose. Because of the burden that its administration and collection places upon public carriers, the burden of the tax upon the mining, heavy goods, and other specific industries, and its competitive disadvantages to producers located long distances from sources of supply or markets, the prompt repeal of the transportation taxes would be desirable.

Other excise imposts which affect the private utility industries, the burden of which is difficult to determine, include taxes on radios, refrigerators air conditioners, electric appliances, electric light bulbs and tubes. The repeal of these items deserves consideration along with the others previously discussed. In fact, all the excise taxes might be studied in the light of present day revenue requirements and the contribution of each thereto as well as their economic consequences.

Public Utility Securities

By OWEN ELY

American Power & Light

American Power & Light Company, one of the Electric Bond & Share holding companies, filed its first integration plan with the SEC in July, 1941, and it has taken over eight years to work out a final compromise plan and obtain SEC approval. The final plan has now gone to a Federal court for approval and, since there is no contest, final consummation may be only about 3 to 4 months away if the court acts promptly.

The final plan is comparatively simple, alloting 82% of the assets to the preferred stocks and 18% to the common. As between the two preferred issues, the relative participation is in the ratio of 6 for each $6 preferred to 5.05 for each share of $5 preferred. Based on these divisions as applied to the shares held in each subsidiary, following are the packages assigned to each share of American:

	Per Share American P. & L.		
	$6 Pfd.	$5 Pfd.	Common
Florida Power & Light	1.242	1.045	0.147
Minnesota Power & Light	0.304	0.256	0.036
Montana Power	1.255	1.057	0.148
Texas Utilities	2.231	1.878	0.263
American Power & Light (new)	1.188	1.000	0.140

American Power & Light (new) represents new common stock of the parent company, which will be kept alive, temporarily at least, as a holding company for the northwestern group—Pacific Power & Light, Washington Water Power, and Portland Gas & Coke. Following future recapitalization of the latter company, American's holdings will probably be reduced to a small minority amount, which may be sold. American has also requested SEC permission to make Pacific Power & Light a subsidiary of Washington Water Power and if this is eventually permitted, it seems probable that American would then distribute Washington Water Power and finally dissolve. American also retains a few shares of other subsidiaries which will probably be sold, or perhaps donated to the subsidiaries for cancellation, as the SEC may direct.

Minnesota Power & Light is the only subsidiary stock which has sold new-money shares to the public and accordingly has a current quotation. The value of other stocks must be calculated on the basis of current earnings and "reasonably anticipated" dividend payments after the companies are in the hands of the public. Several Wall Street houses have issued memoranda estimating the value of these stocks and the resulting break-up value of American Power & Light issues. One of the most comprehensive is the 30-page brochure of Goldman, Sachs & Company. The firm estimated the pro forma earnings and dividend rates of the two operating companies, Florida and Montana, and of the two holding companies, Texas and American new. These worked out as follows:

	—Estimated—		
	Value Per Sh.	Div. Per Sh.	Est. Yield
Florida Power & Light	24	$1.40	5.9%
Minnesota Power & Light	*27	*2.20	8.3
Montana Power	20	1.40	7.0
Texas Utilities	18¼	1.20	6.6
American Power & Light (new)	13	1.00	7.7

*Based on actual market and dividend rate.

The $1.40 estimated dividend rate for Florida seems low in relation to current earnings but the indicated yield also seems low for a stock of this character, so that the two factors somewhat offset. The yield basis for Texas Utilities seems reasonable as compared with those of similar holding companies such as Middle South and Central & South West, though Southern Company is currently available to yield nearly 8%. Yields for Montana and American would seem about in line with those of similar utilities. The estimates would seem to discount at least moderate "seasoning" after issuance of the new stocks.

Based on application of these estimated values to the respective packages listed above, Goldman, Sachs arrives at break-up values as follows, compared with present quotations:

	Recent Price	Break-Up Estimate
$6 Preferred	102	$119.25
$5 Preferred	87	100.40
Common	12	14.08

William H. Colvin Dead

William H. Colvin died at his home in Evanston, Ill., at the age of 79. Mr. Colvin formerly was in the investment business in Chicago and was a former President of the Chicago Stock Exchange and Chicago Board of Trade.

Joins Wm. D. James Co.

(Special to THE FINANCIAL CHRONICLE)

SACRAMENTO, CALIF.—Leonard A. Hughes has become affiliated with William D. James Company, California State Life Building. He was previously with Waldron & Company.

Two With Dean Witter

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Franklin A. Sanford and Fred W. Willey have been added to the staff of Dean Witter & Co., 45 Montgomery Street, members of the New York and San Francisco Stock Exchanges.

With Henry F. Swift

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Robert D. Larabie has been added to the staff of Henry F. Swift & Co., 490 California Street, members of the San Francisco Stock Exchange.

Government-Business Tension in Relation to Business Outlook

(Continued from page 8)

public. This is perfectly legitimate, and in principle it does not appear entirely inconceivable that it would have some significant effect beyond providing an increase not urgently necessary in the revenues of the large-circulation press and of the firms who sell salesmanship. Perhaps mine is not a typical reaction to it, but most of what I have seen of it seems to be clearly ineffective. It obviously lacks in frankness, in objectivity, in punch, and in reasoned argument. If it does not claim for free enterprise all the credit for the more favorable aspects of the American climate, by dogmatic assertion repeated *ad nauseam* it does try to persuade an audience which thinks it has personal experience to the contrary that there is not a cough in a carload and that only the best leaves are used, the others presumably being fed to the cows.

Free Enterprise Has Remediable Flaws

There is so much of substance that could be said for free enterprise, even as it is as distinguished from what it might be made to be, provided only that there was no pretense that it is without remediable flaws. If this campaign were conducted to appeal to the intelligence of the American public instead of to its supposed susceptibility to pointless slogans and to endless repetition of meaningless rhythms, the result, I believe would be valuable education both for audience and script writers. Not only would the hold of free enterprise on the American public be strengthened on the basis of its merits, but there would be an indirect by-product of value. Has no one ever told the copywriters of the disarming effect of a little frankness, especially when what is revealed was not really a secret before? No one really demands that business be conducted by saints in the intervals left between their long sessions at prayer and private good works. Everyone in fact knows that business is conducted for the most part by corporations, and while we have some sort of authority for the proposition that corporations are soulless, I think that, with some mental application, the spokesmen for business could develop a plausible case for the proposition that generosity and public spirit come more easily to the corporation acting in its corporate capacity than to the individuals who manage it and the shareholders who get the thin bottom slice of the earnings as dividends.

There has been since 1932 a definite and substantial element of hostility in the relations between American business and American Government. To some extent this may be inherent in the relations between two contenders for power, and there may have been even under the Harding, Coolidge, and Hoover regimes some sections of the business world who did not regard the grip government had on them as a friendly embrace. I can easily conceive of too much unity between government and business for the good of the country, whether this unity took the form of government acting as the agent of business or of business, through bribes or coercion or fear, submitting passively to every edict of government. I think however, that there has been a clearly artificial element in this hostility, serving badly both the interests of good government and the legitimate interests of business in its own prosperity. Politicians, columnists, demagogues, and reactionaries, all have to some extent manufactured or encouraged this hostility in calculating fashion to serve their private or ideological objectives. Others have simply and irrationally found in it an outlet for the hyperactivity of their glandular apparatus. One consequence has been that the relations on the policy-making and pronouncement-making levels of government and business, upon whose character so much of the fate of the country depends, have at frequent intervals been either frigid —meaning cold war but hot exchange of epithets—or have resulted in far less mutually beneficial cooperation than would have been achievable if an atmosphere of emotional distrust and enmity had not been created. There is unlimited scope for beneficial mutual discussion and negotiation with respect to problems common to both between government and business. But I have seen a single strongly phrased epithet—this happened to be in a solicited letter from a very distinguished New York businessman to a very distinguished Washington politician—put an end to what had been a good resolution, reluctantly adopted, to substitute friendly diplomacy for open warfare, on a vital matter of public and of business policy.

Major Fields of Cooperation of Government and Business

So far my talk has been in general and rather abstract terms. Time limitations would prevent treatment of all the significant types of contact between government and business even if I had the necessary competence. I will select for special comment, therefore, three major fields in which government and business can cooperate, or can fight each other: the monopoly problem; economic stabilization and the impact of the tax structure on the strength of the free enterprise system.

It may sound like a paradox to you if I state my belief that the greatest special service the Federal Government has ever rendered to the free enterprise system was in the passage and enforcement of anti-trust legislation. Practically all the support on economic and on ethical grounds which economic theory provides for the free enterprise system rests on the assumption that enterprise is not only private and free but that it is competitive. There are two major ways in which competition can be eliminated or narrowly restricted in a free enterprise system: through cartelization and through the development of giant firms, or "trusts." European experience clearly indicates that of these two methods, cartelization impairs the working of a free enterprise system more seriously than does the trust movement, but may arouse less public hostility to the monopolists than does trustification of business. Cartels tend to protect the small firm, whether efficient or inefficient, and to stifle or deaden most of the incentives to efficiency. The British trend toward socialism has been in large measure a reaction against the deadening effect on business enterprise of cartelization, and the British in the past and now, because of the absence of any serious equivalent to our anti-trust legislation, really have had only Hobson's choice: between the inefficiency of central economic planning subject to dual control of government and trade unions, and the inefficiency of private enterprise when cartels make it unnecessary for the individual firm to be efficient to survive. What they now have in England is a combination of government economic planning and of government-sanctioned cartelization, probably the worst possible mixture that could be prescribed for a country in special need of enterprise, efficiency, and flexibility.

American anti-trust legislation has substantially prevented the development of domestic cartels in the American economy, although so-called Fair Trade legislation has made possible in the retail field a considerable approximation to the British situation. Authentic cartels are legal and in some important instances, as for example, the dairy industry and the California fruit-growing industry, are operative, in agriculture.

Where American anti-trust legislation has seriously failed is in preventing the growth of giant firms, with sufficient economic power to set the pattern of sales prices and of prices to suppliers. It is in general the efficient firm which finds it easiest to grow in size, but because efficiency is a cause of size it does not follow that size is a cause of efficiency. There is no convincing evidence that the giant firm, or the giant plant, is more efficient in production than the moderate-sized firm, or plant, and there are many incentives to growth in size of firm which have nothing to do with efficiency and some which make the power of size a working substitute for efficiency. An efficient small firm is often worth more to a giant firm in the same industry than it is worth to the owners of the small firm or to the national economy, and all who are acquainted with the history of American business know of cases where sick giants have absorbed healthy and flourishing moderate-sized rivals, not to add to their productive efficiency but to add to their monopoly power as seller and as buyer.

Aside altogether from the efficiency aspects of the problem, the presence of giants in American industry fosters the widespread feeling that where there is great power there will inevitably be instances of its abuse, the belief that the mere existence of giants increases the economic hazards for the small firm and tends to substitute competitive sales effort which can choke off the most efficient small rivals for competition on the basis of price and quality of product. The price-leadership system has been American business' mode of adaptation of the inherent aspiration of business for monopoly to the existence of anti-monopoly legislation.

The present Administration in Washington and the present Supreme Court seem to be genuinely sympathetic with price-competition (outside the fields of agriculture and labor). If it is to be restored in this country, the anti-trust legislation will have to be strengthened so as to place limits or checks, direct or indirect on growth of size of large firms where efficiency considerations do not make such growth urgent —which means in most cases. I think American business will make a serious mistake both as to its own special interests and as to the consequences for the durability of free enterprise, if in the case of a contest between government and the giants as to what shall be the prevailing pattern of the American economy it unqualifiedly takes the side of the giants. I would even argue that it is in the long-run interest of the giants to cooperate with government in finding nondisturbing and relatively painless ways of checking the intensification of industrial elephantiasis.

The next type of possible conflict between government and business on which I will comment arises out of differences of attitude as to how to deal with the peculiar instability of the American economy. Here I believe there has been serious error on both sides. Government has used the need for economic stabilization as a pretext for justifying extravagance and irresponsibility in expenditures, and has exploited times of unemployment to extend permanently the range of its activities where public approval of such extension could not have been obtained on its merits *per se*. Business, on the other hand, has for the most part insisted that an exact annual budgetary balance is a specific for all ills, good in boom times as in times of depression, and has tended also to take a hostile attitude to the use of monetary and credit policy as an instrument of stabilization. In some business quarters, any suggestion that it might be possible to take most of the sting out of the business cycle by some combination of flexible monetary and fiscal policy is sufficiently refuted by the charge that this is Keynesian, as if Keynes was a peculiar sort of monster who was incapable even by inadvertence of making any proposals which would be at least worthy of objective consideration.

I will not expand on the urgency of stabilization. I will only point out to you, first what you already know, that in the outside world the belief in the inherent instability of the American type of private enterprise is the strongest propaganda weapon in the hands of those who want to do away with every vestige of free enterprise; and, second, what you may or may not know, that there is no other country in the world where even the most conservative of businessmen share the hostility of American business to experimentation in the use of credit policy and/or fiscal policy as instruments of economic stabilization. May I also call to your attention the lack of warrant for complacency as to the attitude of the American public toward free enterprise, including the attitude of many businessmen, if once again free-wheeling American enterprise and mass-unemployment get closely associated in the American mind.

I believe that ways can be worked out of applying monetary and fiscal policy to the stabilization of the American economy which do not appreciably lessen the pressures on government for economy and efficiency in its own operations, and which do not involve an extension of the range of government participation in industrial activity as a by-product. These ways are to increase the stress on monetary policy as distinguished from fiscal policy and, in the use of fiscal policy, to introduce the required anticyclical flexibility predominantly on the taxation side of the budget rather than on the expenditure side.

Impact of Tax Structure

Finally, a word on the impact of the tax structure on the health and strength of the private enterprise system. If the contribution which business enterprise has the potentiality to make to an ever-rising American standard of living is to be realized, American business must have incentives to take calculated risks and must have access on reasonable terms to American savings to finance this risk-taking. If the structure of the tax system is such that the risk-taker must bear all the losses which occur but can hope to get only a thin slice of any profits before taxation, he will look for safety rather than for venturesome growth.

I believe that our present tax structure is inherently such as to act as a wet blanket on the risk-taker, and that under stable economic conditions all the dice are now loaded against the risk-taker. I cannot see that the consequences have as yet been serious, but this is because the deadening effect of heavy impact of taxes on profit margins has been offset by the expansive effect which inflation has had on the size of profit margins. In fact, I think our tax structure as it has been since the war period has on the whole been well suited for an inflationary period. Given the severity of the tax load as a whole, however, its unbalanced impact on profit margins can have ominous consequences during a period of deflation or depression.

As particular aspects of the tax structure which could deepen a depression and retard the operation of the natural recuperative forces so as to tend to make depression chronic once it has made its appearance, I cite without claims to completeness: first, the double taxation of income earned through the corporate form of enterprise; second, the preferential treatment of debt capital as compared to equity capital; third, the incomplete provision for averaging of income for tax purposes over a number of years, including carry-back provisions for losses; and finally, the arbitrary limitations on the time-allocation of tax allowances for depreciation and obsolescence.

I do not think that on these tax issues there is a sharp conflict of social attitudes, and the major obstacles to reform lie, I think, in normal government inertia and in the technical difficulties of tax reform which lead to lack of agreement among the experts as to the best form which tax revision should take. As long as prosperity is on a high level, the pressure for reform will be slack but it is important that progress be made in tax revision along these lines in anticipation of the time when it will be urgently needed.

In this discussion of some of the sources of tension between government and business, I have tried to be objective, and to reach my conclusions on the basis of my passionate desire for the indefinite survival of a healthy, strong, and socially beneficial private enterprise system. I hope you will not find any parallel between my type of objectivity and that of the Irish judge who pledged himself to keep to the middle path between partiality and impartiality.

Merrill, Turben Co. Celebrates 25 Years

CLEVELAND, OHIO—Merrill, Turben & Co., Union Commerce Bldg., members of the Cleveland and Chicago Stock Exchanges, are this year celebrating their 25th anniversary. In connection with this anniversary they are distributing an attractive booklet which contains comparative statistical figures on selected unlisted Ohio stocks.

B. H. Day Opens

GRAND JUNCTION, COLO.— B. H. Day will engage in a securities business from offices at 528½ Main Street. He was formerly with the Investment Service Corp. of Denver.

With King Merritt & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — George K. Johnson has become associated with King Merritt & & Co., Inc., Chamber of Commerce Building. He was formerly with Dempsey-Tegeler & Co. and prior thereto with C. E. Abbett & Co.

With E. F. Hutton & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Edward P. Noll has been added to the staff of E. F. Hutton & Company, 623 South Spring Street.

The Basis of Federal Reserve Policy

(Continued from page 15)

member banks. As you know, member banks are required by law to keep certain percentages of their own demand and time deposits as reserve deposits at the Federal Reserve Bank of their district. Decisions of commercial banks with respect to lending and investing are greatly influenced by their actual, required, excess, and potential reserves.

It is primarily through its influence over reserves that the System influences the flow of money. The System has three general instruments to affect the reserves of member banks. Two of these—discount rates and open market operations — affect the volume of reserves, and the third — reserve requirements — limits the amount of bank credit that can be based on a given volume of reserves. These three instruments are closely related. The relative emphasis that has been placed on them has shifted significantly from time to time.

Initially, the Reserve Banks were viewed as relatively passive institutions. They were considered big brothers available as a source of help to their member banks. When members needed reserves, they borrowed from the Reserve Banks. The most active instrument of policy during these earlier days was the rate of rediscount. The rate was increased to discourage borrowing and was decreased to encourage borrowing.

Early in the 1920's, the Reserve Banks began to purchase government securities to maintain their earnings. Such open market operations were thought to be wholly independent of discounts. It was soon observed however, that the funds put into the market by the Reserve Banks through security purchases found their way back in large part through repayment of borrowings from the Reserve Banks. In other words, the volume of discounts and open market operations were in fact closely related. Both are avenues of access to the Reserve Banks. The two instruments had to be correlated in an effective over-all policy. The System, therefore, accompanied sales of securities with increasing discount rates to achieve effective restraint, and accompanied purchases with decreasing rates to produce general monetary ease.

Yet the two instruments, though related, were not identical. Sales of securities by the System had some restraining effect even when not accompanied by higher discount rates. In part this arose from the fact that discount rates were usually kept above the yields on the securities in which the System dealt in the open market. Hence, if member banks were forced to obtain reserves by borrowing, the cost of reserves was increased. In the second place, sales of securities were a signal that the System was of the opinion that credit should be tightened. This opinion of the responsible authorities was likely to influence the market.

Sales of securities had yet another effect even though initially offset through borrowing. Commercial bankers manage their institutions according to certain principles and guides. A common guide is to avoid continuous borrowing. Many banks, therefore, although willing to borrow temporarily to meet reserve deficiencies will contract their credit rapidly or gradually to repay debts. This tradition against rediscounting is not powerful enough in itself to give adequate control over credit expansion, but it is a limiting factor.

These two instruments — the discount rate and open market operations—affect the amount of member bank reserves. The third general instrument—reserve requirements—limits the amount of bank credit that can be based on a given volume of reserves. Authority to change reserve requirements was first granted to the Board of Governors during the depression of the 30's to deal with existing and prospective excess reserves that were beyond the reach of the System's other instruments. We still have a lot to learn about the operation of such changes. We are repeating with reserve requirements the experience we had with open market operations; they cannot be considered in isolation any more than open market operations can be considered independently of discounting.

Differences in judgment as to the effectiveness of changes in reserve requirements arise principally from differences in expectations as to the course of actual reserves—which depend largely on open market operations and discount rates. At one extreme are those who assume that actual reserves will remain unchanged. They conclude that changes in requirements are a powerful weapon forcing a multiple change in deposits. It should be remembered, however, that changes in requirements produce either excesses or deficiencies in reserves and that such excesses and deficiencies, in turn, are powerful factors affecting the demand for actual reserves. To have maximum effect, therefore, increases in requirements must be accompanied by appropriate stiffening of terms on which reserves may be obtained, and decreases in requirements by appropriate easing of terms to stimulate demand for credit and an expansion of bank loans and investments. If the full effect is desired from large changes in requirements, the necessary changes in terms on which reserves or securities are made available are apt to be so large as to interfere with maintenance of orderly conditions in the money market. This may pose a conflict that requires some degree of compromise.

At the other extreme are those who assume that changes in requirements will be accompanied immediately by corresponding changes in actual reserves and who conclude, therefore, that changes in reserve requirements are of negligible influence. This conclusion presupposes that actual reserves or securities will be made available by the System at terms existing when the requirements are changed. Even under such circumstances, however, it should be remembered that changes in requirements have ancillary effects of some importance. In the first place, they are an expression of the judgment of System authorities with respect to credit developments. An increase means that the System wishes to restrain credit and a decrease that it wishes to stimulate credit. Such judgments by System authorities influence credit developments. In the second place, changes in reserve requirements affect the amount of funds that banks can and are willing to lend and invest. To be sure, a bank may make good a reserve deficiency arising from an increase in requirements by selling government securities. But it will then have fewer such securities and will probably be less inclined to dispose of still more in order to expand its loans and other earning assets. Similarly, an increase in requirements reduces both the ability and willingness of banks to expand on the basis of excess or accruing reserves. A potential increase has similar effects when it appears imminent. I have found a few bankers who have said they would expand other earning assets to offset the actual or prospective decline in earnings, but they have been a small minority.

As I have said, we still have much to learn about the operation of changes in reserve requirements. My present conclusions, which are influenced by many hours of discussion with bankers in the Third Federal Reserve District, are that they have some effect in the desired direction on the availability of credit even when unaccompanied by changes in rates and yields but that larger effects can be expected only if accompanied by changes in rates and yields.

In addition to the three general instruments to influence the amount, availability and cost of bank reserves, the System has authority to regulate minimum margins on security purchases and sales. On emergency bases it also regulated consumer instalment credit for limited periods. The purpose of such selective instruments is to adapt credit to diverse developments in different and relatively segregated fields.

III.
What Guides Does the System Follow?

The art of central banking is the proper use of these available instruments to achieve desired objectives in the real world. An omniscient central banker would know exactly what to do at all times. Practicing central bankers, however, are forced to devise useful guides to indicate the direction and speed with which they should act. They must diagnose the ills of the economy before they can prescribe an effective remedy. This requires a continual check of symptoms which reveal the state of our economic health.

The System publishes each month the principal graphic material used by the authorities. This chart book contains comprehensive information on bank credit, money rates, and business. Obviously there are many important factors that defy statistical measurement. The prospective direction and strength of the many forces operating in the economy are matters on which judgments differ. The staff prepares comprehensive analyses of possible alternative developments based on various assumptions. These are some of the materials that central bankers employ in arriving at decisions as to the nature of the problems confronting us and the specific actions needed to solve them.

IV.
What Specifically Has the System Been Doing Recently?

The Federal Reserve authorities operate in the real world. The general objective of economic stability remains the same, but the actions taken to promote it must be suited to the situation that exists and must, therefore, be adapted to changes in economic conditions. Excessive expansion calls for a program of restraint, excessive contraction calls for a program of stimulation. I mention this need for flexibility because the System is sometimes accused of inconsistency when it reverses a program. The consistency that is important is that concerning objectives, not that concerning programs of action.

As you know, the System has changed its program since the meeting of this Forum last September. At that time the problem was too much money and inflation. A month later the program then being followed was described in the Federal Reserve Bulletin in these words:

"Since the war, and particularly since mid-1947, Federal Reserve credit policies and the Treasury fiscal and debt management program have had as a major objective as much restraint on monetary and credit expansion as was consistent with maintenance of orderly and stable conditions in the market for Government securities. Action toward this objective on the basis of existing powers included focus of the Treasury program of debt retirement on securities held by the Federal Reserve Banks; upward adjustments of rates on short-term Government securities and in Federal Reserve discount rates; reduction in Federal Reserve support prices for medium-term and long-term Government securities; increase in reserve requirements. . . ."

At that time many over-all indicators were still establishing new postwar highs. One can reconstruct a better impression of conditions as they appeared at the time if he looks at the chart book published a year ago rather than the most recent issue. A director of the Philadelphia Reserve Bank phrases this difference in these words: "I have 20/20 vision only when looking at the past."

As events have turned out, the decision to increase reserve requirements which became effective in September, 1928 was the last formal decision by the System to increase restraints.

The endless flow of information began to indicate that this particular crest of inflation was over. The problem became one of making reserves more plentiful and of checking contraction. Beginning in March of this year a series of decisions have been taken to relax restraints on credit. On March 2 Regulation W on consumer instalment credit was relaxed. On March 28 margin requirements were reduced from 75% to 50%. On April 22 Regulation W was further relaxed. On April 28 reserve requirements were reduced by about $1¼ billion. On June 28 the Federal Open Market Committee announced "that with a view to increasing the supply of funds available in the market to meet the needs of commerce, business, and agriculture" purchases, sales, and exchanges of government securities would be made with "primary regard to the general business and credit situation." With the lapse of the Board's temporary authority on June 30, there was another reduction in reserve requirements, totaling about $800 million, and regulation of consumer instalment credit was terminated. In August reserve requirements were reduced further in a series of steps, the total amounting to about $1.8 billion.

In announcements and comments on these various actions, Reserve officials have emphasized time and again "that credit regulations are not a one-way street. They should be tightened or relaxed as general economic conditions require." This emphasis is properly placed. No one can now know how soon it may be necessary to increase restraints again.

When and so long as general economic conditions — including the imponderables — deteriorate, the appropriate program is to relax. The three available general instruments are reductions in reserve requirements, purchases of securities, and reductions in discount rates. I would like, however, to reemphasize what I said before about these instruments. They are closely related. For instance, the System is always interested in an orderly money market. You may find, therefore, that if, for example, reserves released by a reduction in requirements are creating temporary disorder in the money market, the System may reduce its holdings of securities. Such an operation should not be interpreted as a reversal of policy or inconsistency. It may be compared to the receipt of change when payment is made in a note that is larger than the bill.

V.
How Are Decisions Made?

Decisions are made by people. In the United States we value democracy and group judgment above consistency and centralized efficiency. In keeping with our experience, we organized a federal system rather than a central bank. We have made changes from time to time to meet particular circumstances, but not always with regard to how neatly the parts fit together. As a result, our present complex organization is a never-ending source of irritation to teachers and especially to students of banking. For example, we have seen that the three major instruments of general credit policy are intimately related. Yet, according to the Federal Reserve Act, rates of discount are established by the Federal Reserve Banks subject to review and determination of the Federal Reserve Board; open market operations are regulated by the Federal Open Market Committee, which consists of the members of the Board and the representatives — actually the Presidents in rotation—of five Reserve Banks; while reserve requirements are determined within legal limits by the Board. No one would allocate powers in this way if he were starting from scratch.

All decisions have one thing in common: they are group judgments. Now a group judgment is something more than the judgment of any single member—and it is something more than the mere addition of the independently acquired judgments of the several members.

The complexities of the original organization arose in part from the desire of the founders to assure that the judgment of each agency would reflect consideration of possible differences in views. There have been some changes in details but the present law still reflects this approach.

In selecting members for the national agency—the Board of Governors—the President is directed to "have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country."

Similarly, the nine directors of each district Reserve Bank are divided into three classes representing the points of view of the lenders, of the borrowers, and of the general public. To assure wide coverage of views, member banks are divided into three groups based on size for the selection of class A and class B directors. The several boards of directors, subject to the approval of the Board of Governors, select the Presidents, or chief executive officers, of the Reserve Banks. The intention of the organizers was that decisions should reflect the combined judgment of groups of officials who had a variety of experience, not that each official should take a narrow view of benefit to a particular interest. The real intention has been realized in practice. The officials are acutely aware that their responsibility is to promote the general economic welfare of the entire country.

We may take a meeting of the Federal Open Market Committee as representative of the way in which decisions are reached. Ordinarily a meeting is held just after a Conference of Presidents of the Reserve Banks and, in addition to the members, is attended by the remaining Presidents and a number of senior staff members of the Board and the Reserve Banks.

Current developments are reviewed and subjected to extensive discussion. Important materials are the memoranda, analyses, and charts that I have mentioned as guides to action. Each participant brings to the discussion his best thought, information, and judgment.

The contacts of the System, like the System itself, span the country. This meeting today is an excellent example of how the System keeps in touch with what is

going on. The Reserve Banks, each in its own way, do their best to keep informed. Consequently, the Presidents of Reserve Banks can bring to the meeting an intimate knowledge of local and national developments, as well as the practical experience gained from serving as chief operating officers at their Banks. Collectively they are in intimate daily contact with the money markets as well as all other phases of economic activity.

Each final decision is the combined judgment of the group. Group judgment differs from individual judgment because it frequently means that more factors, as well as more people, are taken into account in arriving at decisions. The record of all policy actions as well as the votes and reasons underlying such actions are published in the Annual Reports of the Board of Governors. In studying these records it is well to keep in mind that the exact decision is not necessarily the same as would be made by any member acting in isolation; it is a combined judgment. It is helpful also to keep in mind that differences may arise between observers and participants because of the difference in their responsibility. It is one thing to sit on the hot seat; it is another to point a finger at the person who is on the hot seat. The military genius, von Clausewitz, recognized this when he distinguished between the principles of war and the conduct of war itself. He said "The results on which we count in warfare are never as precise as is imagined by someone who has not carefully observed a war and become used to it."

In testifying before the Senate Committee on Banking and Currency last May, Chairman McCabe described the process of reaching decisions in these words:

"Before coming to decisions on all matters of policy, the Reserve Board has the inestimable advantage of being able to communicate with and obtain factual information, as well as opinions from the 12 Federal Reserve Banks and their 24 branches throughout the country, on whose boards are more than 250 directors, drawn not only from banking but from the widely diversified industrial, commercial, agricultural, and professional pursuits of the nation. The directors, the officers, and staffs of the Reserve Banks and the Board, the Federal Advisory Council, and the member banks comprise the Reserve System which, as I have often said, is like a vast pyramid, whose breath and strength is in its base. The Board has constantly available current information, drawn from this great System to supplement the vast mass of factual and statistical data gathered through other governmental sources. Moreover, the System sponsors special studies as occasion demands. In addition, we are always as pains to consult with representative businessmen, the small as well as the larger ones, with trade associations and in fact, with all who are affected by System operations. We try to weigh carefully their views and to distinguish broad national considerations from those reflecting narrower interests. I mention these myriad sources of information to emphasize that we do not function in a vacuum."

VI.
Concluding Comments

Federal Reserve policy is what the people in the Federal Reserve System do. I know a lot of these people personally. They are not unique. If they were to mingle in a crowd walking down the street on Easter Sunday, you could not identify them. They put on their trousers one leg at a time as do other men.

They are responsible for exercising judgment in the field of money and credit. Here, too, they are human: they will not always agree. Their group decisions will be criticized. The many others who are competent in this field have a right to express their views. In a democracy indeed they have a responsibility to do so. In the long history of the System, views expressed outside official circles have not been without influence on what has been done.

Observation and study of central banking happens to be my specialty. But I am not as convinced of any principle of central banking as I am that the democratic method of free discussion produces the best results in the long run and that it is the best method that people have yet devised to live together.

Erasing Mysteries of Trust Service

(Continued from page 4)

services of these financial institutions. But those companies who continue to advertise and to explain their services will succeed in justifying their existence. For instance, I should like to quote briefly from a letter which our company received only recently from a new customer:

"I was very much pleased with the kind consideration which your company has given to our small affairs. I had somehow formed the impression that trust companies were the concern only of moneyed people, and am delightfully surprised to find that the reverse is true. Thank you for your intelligent interest."

Estate Planning

One especial service offered by trustmen is Estate Planning. Trust institutions, in this manner, have the opportunity to explain the nature of the services which they render and also how they are merely a group of human beings trained to do a specialized job with as much emphasis on the human aspect as on the technical phase of their work. In fact, their experiences enable them to understand better than most individuals the difficult subject of "human relations." Trust companies, likewise, are performing an essential service to their customers and prospective customers. Everyone in the trust business has known instances where failure to have a good estate plan may contribute as much to death as any one of our more common physical ailments. Almost a matter of life and death!

More people are taking advantage of these offers to discuss their estate plans with trustmen. Some find that for the present only simple wills are necessary to preserve their estate. Those with minor children are reminded of the possibility of a common disaster to the parents and that such a provision may be included in their wills. And trust institutions can serve them in all of these instances — as Executor, Trustee or Guardian. Everyone who makes a will has the privilege of selecting their own executor, thus making it unnecessary for the court to appoint an administrator to handle their estate. After actually discussing administration matters with an Estate Planner, people realize that they cannot afford to have an inexperienced executor. That executor must be a professional one—like a trust institution—to do the best work; not a widow, relative, son or son-in-law who lacks seasoned business judgment — or a busy friend.

Other situations may require the establishment of a trust now, or the inclusion of a trust in their will. The former type of trust, referred to as a Living Trust (it only means a trust which is established during a person's lifetime) may be necessary to provide for the management and supervision of real or personal property; to insure a sound investment plan; to provide for the well-being of an aged parent or relative; to take advantage of gifts under the Federal Tax Statutes; to perform the orderly transfer of property from owner to other party or parties; to assure the education of children or grandchildren; or any number of other situations peculiar to an individual or family. In the latter category, which is the trust under a will (known as a testamentary trust because it comes into operation only under a last will and testament), it may be that a husband wants to relieve an inexperienced widow—and usually a grieving one, I might add!—of the complexities of the management of capital under our present-day intricate economy; or it may be to safeguard a business which a father has established, until such time as his son will decide whether he wants to participate actively in it; to insure against a spendthrift or shiftless son—yes, and a son-in-law—from exercising undue influence on a widow or other family members; to make certain that no one individual, realizing the frailities of human nature (we never know when our mental faculties will fail us!), will have complete and sole control over his property; to establish the orderly distribution of his property to his wife and children, or other beneficiaries; to minimize the tax liability and other items of cost in the handling of an estate; and to be sure that his wife will not have to go around seeking piece-meal advice from her friends, some of whom may be of the fair-weather type.

Then there is the Marital Deduction provision of the Revenue Act of 1948 which is an important reason for both husband and wife to review their assets and plans together. In some cases a trust established under a will for the benefit of a wife and children may save thousands of dollars in Federal Estate Taxes. The Revenue Act of 1948 also liberalized the gift tax provisions for husbands and wives. For instance, if a person with an estate of $200,000 gives a child $6,000, which is tax-free, he saves his estate over $1,700 in estate taxes. It is almost unbelievable to the uninitiated how much can be saved by careful planning of an estate by a qualified Estate Planner. Such reviews may also negate the outmoded arguments in favor of joint property. Tax-wise, the effects of joint ownership of property are often adverse.

A New Trend

There is a new trend in Estate Planning which is developing today. It is actually a combination of the Living Trust and the Will, with the latter relegated to a minor position. The Living Trust, in effect, permits a person to see his will in operation; otherwise, a person never knows whether the plan, which he selects in his will, and the administrators, whom he chooses, are the best for him and his family. Furthermore, the Living Trust, in addition to the advantages pointed out above, will provide for the protection of an estate during a person's lifetime, which at best is uncertain. One of the strong advocates in favor of the Living Trust over the Will is the internationally-known attorney, Mayo Shattuck of Boston. Another advantage of the Living Trust is that the estate is not probated and thereby subject to the publicity, high costs and delays of all probate courts. Some legal authorities still believe it also wise to have a simple will which will act as a "catch-all" and transfer any loose ends to the Living Trust. We ourselves have found already that this combination is working better than any other known plan and we are sure that its success will continue to spread throughout the country as more people experience its benefits.

The Common Trust Fund

The greatest boon to trustmen in recent years is the Common Trust Fund. This fund is the mutual theory of an investment and, as previously noted, investment management and supervision are the basis of all trust service. Trustmen now have an opportunity to show to the public what their performance is in the investment of funds. Heretofore, they were handicapped because they could not disclose the assets and the investment performance of any one account. Individual accounts are strictly confidential. The Common Trust Funds are well diversified among fixed - income securities, i. e., government bonds, corporate and other bonds, and preferred stocks; common stocks; and, in some instances, mortgages. They provide a well-rounded stake in the wealth of our nation and offer to everyone the opportunity to make use of the services of our trust institutions. This device, in time, will provide the ideal medium for handling property. In addition to its investment feature, there is the trust agreement which provides for the transfer of property without probate and the use of discretion by the trustees which is not available by any other means. None of our life insurance companies, investment trusts or savings banks can exercise discretion which is such an integral part of an estate plan.

Perhaps the majority of trustmen have missed the proverbial boat in merchandising their services, particularly the Common Trust Fund. Most of us could learn much along this line from other successful merchandizers, such as banks, insurance companies, savings and loan associations and, just recently, investment trusts. And we should even study the methods of any successful merchant, of whom there are many all around us, as he, too, is merely selling commodities like ourselves. One approach worthy of consideration is the package idea which is being promoted currently by the investment trusts. And we have so much more to offer! Three important items—Investment Management and Supervision, Trust Agreement—no Probate—and Discretionary Powers. The American public seems to like the package idea, so why try to educate them to something the hard way with difficult technical and legal terms. We all like to have things presented to us in a manner which will require the least amount of time and thought. Trustmen could agree upon certain standard plans—take your insurance policies for example—which would fit most situations. Any changes to fit individual needs could be added to the standard form. In order to facilitate people's thinking, names could be given to the various plans, such as "Plan for Investment," "Educational Plan," "Diversified Investment Plan," "Discretionary Plan," "Family Plan," "Plan for the Future," and "Retirement Plan"—only to name a few. In each case, the "plan" would be broader and more effective than any known financial plan now in existence. The sooner that such an approach is used, the sooner that more people will understand and appreciate the invaluable services which they may obtain from trust institutions.

Much progress has been made in eliminating the mystery from the term, "Trust Services." Not only have the Trust Institutions, Life Insurance Companies and Bar Associations been active in a program of educating the public. Some individual Life Underwriters and certain Attorneys have done much to help trust institutions by explaining to their customers and clients the advantages of using a corporate executor and trustee with its broad and capable organization, plus a human interest in administering estate plans. There is still much to be done on the over-all program, but with the continued cooperation of these three groups and the appreciation and recognition of each other's important contribution to society, their customers and clients will stand to gain most and the public, in turn, automatically will realize the urgent need for all three groups.

Just one word of warning to all trustmen. Don't be afraid to advertise your charges—you are rendering inexpensive worthwhile services and people will gladly pay as they do the doctor, the dentist, the attorney—or for their life insurance policy. In fact, have a fixed schedule of fees—similar to a real estate or a security broker's commission — so that everyone can see what they are and they will know that they are being treated the same as everyone else. And be honest and frank in all of your actions and recommendations. Don't ever be biased for personal gain — there are too many individuals like that in the world today. Then trust institutions will be besieged with business because everyone will realize that trustmen really know their business!

Catozella Heads O'Sullivan Rubber

Vincent A. Catozella has been elected President and a director of O'Sullivan Rubber Corporation, Winchester, Va., it was announced by R. J. Funkhouser, Chairman of the Board of Directors. At the same time Mr. Funkhouser announced his resignation as President, and the election as a director of A. C. Halvosa, Vice-President in charge of sales.

Mr. Catozella is a director of Victor Products Corporation, Hagerstown, Md., and has been engaged in the commercial and investment banking field for nineteen years, for the past seven years with Reynolds & Co., members of New York Stock Exchange.

Leo Strauss, Inc. Opens

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Leo Strauss, Inc. has been formed with offices at 100 West Monroe Street to engage in the securities business. Officers are Leo Strauss, President and treasurer; Arthur E. Swanson, Vice - President; and Ruth W. Strauss, secretary.

Draper, Sears Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Everett T. Boulter and Jack T. Cline are with Draper, Sears & Co., 53 State Street, members of the New York and Boston Stock Exchanges.

Ames, Emerich Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Leslie L. Cooke, Jr. has joined the staff of Ames, Emerich & Co. Inc., 105 South La Salle Street, members of the Chicago Stock Exchange.

With Hancock, Blackstock

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, Ga. — Harris M. Bash, Jr. has become associated with Hancock, Blackstock & Co., Candler Building.

Boardman, Freeman Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Charles H. Sullivan and Fayette O. White, Jr. have been added to the staff of Boardman, Freeman & Co., Incorporated, 75 Federal Street.

With Security & Bond Co.

(Special to THE FINANCIAL CHRONICLE)

LEXINGTON, Ky.—W. Roger Springate, Jr. is now with Security & Bond Company, Mill and Short Streets.

Role of Government in Housing

(Continued from page 13)

the greatest opportunity for solving, progressively, more of the housing problem by a wise coordination and combination of the resources of government and of private capital and industry. That is what the legislation now on the books, new and old, really contemplates. That is the view this Administration holds of it. That is the way we in the Housing and Home Finance Agency seek to apply it.

It will not succeed just because we in Federal government have such a view. It can succeed to its fullest to the extent that private industry and local governments adopt and act upon such a view.

Getting down to specific provisions—the law clearly requires that the major effort of government shall be to assist and encourage private enterprise to serve progressively more of the housing need. You all know that it is hard to assist and encourage anyone very much to reach an objective he has not adopted as his own. And it is hard to develop speed in a group in which a considerable percentage drag their feet.

Housing Situation Today

So let's take a look at the situation as it stands today. We have had a large production of housing for the past two or three years. We have made good progress in developing production in materials and increasing the supply of skilled labor. We have managed to keep available, generally, an adequate supply of mortgage finance — although not everywhere, and not on uniformly good terms. We have been handicapped in some of our governmental operations, especially in the Federal Housing Administration, by budgetary limitations which have caused delays in processing and some delay in construction starts. Nevertheless, it appears we will have a total of private construction starts this year in excess of some of the estimates by more pessimistic prophets early in the year. More significant is the fact that we are tending to build more in the modest price bracket, both for sale and for rent. Unhappily the downward price progress is slower and more spotty in the rental field.

We are beginning this year, I think, to get a better realization in some parts of the industry of what is the real task and how vital it is that we move more rapidly to its accomplishment. Two years ago, and again last year, when I said publicly that housing costs could and would come down, there were loud protests from many builders. The same builders are offering their houses at lower prices today.

But many of the same builders now greet the same statement with the same cry of "impossible." And we reply — "It is not only possible — it is imperative." Speaking relatively, with a measuring stick of the average income of American families, in my considered opinion housing costs will come down—not abruptly, nor in big strides, but steadily and solidly.

It will come about, as so much progress has already been brought about in housing, through research, greater knowledge, better organization and methods. High costs during the past two years were somewhat the result of shortages. They were also somewhat due to unnecessarily high charges, contingent items continued too long; to much demanded by too many for too little delivered; and by a general unreadiness in the industry to recognize the size, permanence and character of the housing market.

Much of the possibilities of housing cost reduction will be realized through the increasing knowledge that can result from a research program. For the first time there is Congressional recognition of the need for conducting broad housing research, and of the fact that there is no present entity in the industry with an interest and authority broad enough to undertake it. Hence, it is lodged in the government's housing agency. But this too was enacted on the basis of full cooperative utilization of the resources of private industry as well as of government to attain the results sought.

Nevertheless, full and progressively growing knowledge of housing needs, new materials and techniques, design, economies, and all the other factors involved, even when made available generally, will not accomplish the desired result—unless there is a readiness and determination to make use of it.

Knowledge, for instance, of costly unnecessary restrictive practices, wherever they may exist, will not remove them, unless those who apply them or countenance them are prepared to act in the interest of the public good.

Knowledge that a long-time stable market for housing in a certain attainable price bracket can be established will avail little unless an array of suppliers, skills, contractors, brokers and others are prepared to accept a little less per unit for their production, to achieve the savings that will make the market effective. This need not mean less total profit or lowered wage rates.

Take, for instance, the public housing program. It has been set up in law in such fashion that it not only should not compete with private housing—but should actually provide an incentive for private production. Public housing will in effect be a revolving fund of housing facilities to take care of a changing group of families who cannot be decently sheltered otherwise. From public housing as their incomes improve, should come a constant flow of families who have been helped by it to become potential customers for privately produced housing.

We anticipate that at least 50,000 units of public housing will have been put under construction during this fiscal year and that the full momentum contemplated in the law will have been reached in the following year. With the discretionary power in the President to accelerate or decelerate, in keeping with the economic situation, public housing activity can be a definite factor in the stabilizing of housing production so necessary to the stabilizing of housing costs.

Slum Clearance

Take slum clearance, for instance. It is designed to make possible the exercise of private enterprise in housing in blighted or slum areas where land costs presently bar the private builder. But not only will it make these areas available for that purpose, it will remove from the scene in many cities one of the most damning and damaging factors that presently competes with decent products of private enterprise.

The scope of possible urban redevelopment in America is so great that the program set forth in the law is of more significance than its own billion-dollar size. It is new. It can point the way to future progress, or it can delay and hamper future progress in our cities, depending upon the wisdom of the beginnings. We know there is impatience to start and there will be criticism of delay. We do not intend to let such impatience or such criticism stampede us. It is of paramount importance to the future of American cities that we be sure these foundations of this new endeavor are firmly and securely laid, without fundamental defects.

From time to time, I hear it said that these public activities will raise the cost of producing housing. I see no good reason why that should be so—even temporarily. In fact, such claims, considered on the over-all basis, appear to me to indicate a lack of confidence in the ability of the industry to integrate itself for big production. In other industries, large production is always regarded as a means of lowering unit costs. Today, when we are accepting a million-houses-a-year as readily achievable, and when production of some materials is declining even with our present high volume of starts—I fail to see why the public housing program should increase costs—if a real disposition exists in the industry to keep them down. In the long run, stabilized high production should have that result. The violent fluctuations of housing production of the past have contributed to high costs by encouraging restrictive practices, by discouraging steady high production of building materials, and ample skilled labor supply, and by contributing to the growth of high marketing costs.

Broadly, I have outlined some of the major phases of the role of government in housing. There is a vast amount of detail I have not touched upon. But let me speak further on the current situation.

Volume of Construction Encouraging

The continued high volume of construction starts is encouraging. So is the gradually changing character of the starts. More and more houses are being launched in lower price brackets. A year ago many said that was impossible. True, these houses are small and there is a preponderance of two-bedroom units. We believe more low-priced homes for larger families are needed. That is why we have recommended to Congress amendments to the insured mortgage system to give special encouragement to build them. The Administration has recommended other provisions affecting improvements in the insured mortgage provisions of FHA and in the secondary market of FNMA. Let me point out that throughout these recommendations we have adhered to our long-time philosophy that the most liberal financing terms should be used as an incentive in the lower-priced fields. We do not believe we can attain the necessary reduction of housing costs by using easy finance primarily to support high costs.

We have also recommended provisions of a broader and more liberal sort of insured mortgages for cooperative housing projects. We believe there is a large and very useful field for the cooperative idea in housing. We commend it to the attention of lending institutions. We intend to give it the wholehearted active support of the agency. In my opinion, here is an opportunity for lending institutions to show the way for others in private business. With proper organizational advice, with technical assistance and management guidance, during the period of development of this field, there seems to me plenty of reasons why it should become a successful form of housing enterprise.

Insured Mortgage

Looking back over 15 years, I recall that lending institutions have been slow to accept each new development of the insured mortgage. First, Title II was very slowly adopted, then Section 603 and then Section 608. Each required an intensive selling campaign, but each became firmly imbedded in your mortgage lending practice. With the passage—as we expect—of the new Section 213 for cooperatives, you lenders will have an opportunity to take the lead, instead of marking time. I strongly suggest the former course, as good business for you, and good service to the public.

Among special fields of early activity the military housing program should have your attention. As you know, it is a newly enacted adaptation of Title VI to the special needs of military posts. The Defense Establishment and the FHA will work closely together in it. Already the first commitment has been issued covering a thousand units. This type of mortgage should provide definite lending possibilities for many of you.

I have mentioned the servicing problem of the FHA, due to the great growth of business to be handled within an inflexible budget. Undoubtedly this has resulted in delay of some projects because of backlogs of processing work. We have recommended, and the House has passed, a provision that will give greater flexibility to the FHA in this matter. We are hopeful that it will soon be enacted.

I have mentioned slum clearance operations as an important part of the government's role in housing. We are waiting on appropriations for that and other phases of the new activity, such as broadened research. Slum clearance and community redevelopment is a totally new program. We have to pioneer in it. We are presently without staff for it. But we expect to build solidly because it is a program of utmost importance to the cities of America. It is our hope that within this fiscal year we will be examining planning or temporary loan applications from at least a hundred cities and will have progressed beyond the preliminary stages with some considerable number of them. To you who lend private capital that, too, is an extremely important matter —not just as an outlet for money, but as an avenue for good constructive civic interest and effort. If for no less selfish reason, it is a chance to take an active part in improving the cities in which you live, in removing some of their blots and eyesores and so providing a more solid background of security for the mortgages you have and will make on homes elsewhere in those same cities.

Key Position of Mortgage Lenders

You and other types of lenders will occupy a key situation in the housing fabric of the next few years. It is highly important that you exercise your influence in the direction of progressively greater effectiveness of private enterprise. It is not enough that you make money available. You should have a definite concern with the rightness of price, the adequacy of accommodations offered, the fairness of financing charges, the absence of unwarranted fees put on because the traffic may temporarily bear them. You should be especially encouraging the builder and developer who are seeking to give most for the money—because more for the money is the final key to expanding fields of operation for private enterprise and lessening need and demand for public aids.

And when I urge re-examination of the cost of housing production by all concerned—I do not exclude the mortgage banker, and the whole array of brokers, agents and others who work in the financing field. Some reports that reach us of fees and bonuses charged, especially in connection with non-FHA mortgages, are disturbing. Fortunately they are not general. But if the cost of housing to the home-seeker is to be brought down, it will be by the multiplication of many small savings—not by some single miracle of discovery so far as we can discern. Interest rates, financing charges and charges incidental to transfer are necessary but they should never be higher than sound business operation requires.

Let me summarize these remarks, thus. The prospect for success in our housing endeavors appears to me encouraging. It will be a progressive success. It will depend upon close cooperation among the many factors involved — mainly labor, finance, management and government.

The role of the Federal Government has already been clearly stated by Congress. It will be to encourage and assist private enterprise by all proper means; to supplement it with public housing and other aids where they are necessary, but not to supplant it. It will be to recognize housing as a local community responsibility and to extend its direct financial aids through the communities.

The situation will not be static. Legislative measures will change. But the background philosophy and general approach are clearly set forth. To me they are intensely practical and intensely American.

The Housing and Home Finance Agency, including its constituent agencies, has before it the greatest housing job in the nation's history. It plans to carry it out as efficiently, effectively and rapidly as is soundly possible. In doing so, it will earnestly seek to cooperate with, assist and encourage the whole range of private enterprise in this field.

Lehman-Goldman Group Underwrites West Penn Common

The West Penn Electric Co.'s offering of 856,895 additional shares of common stock for subscription and exchange has become effective through clearance by the Securities and Exchange Commission. Lehman Brothers and Goldman, Sachs & Co. jointly head a nationwide group of 164 underwriters which is underwriting the offering and which will purchase any unsubscribed or unexchanged shares.

Of the 856,895 shares, 468,621 are being offered to common stockholders at a price of $23.62½ per share on the basis of one additional share for each five held of record at the close of business Sept. 22, 1949. The subscription offer will expire at 3 p.m., EST, on Oct. 7, 1949.

Common stockholders also will have an additional subscription privilege to subscribe at the same price for any of the 468,621 shares not taken under the regular subscription offer. If necessary, allotments on additional subscriptions will be made proportionately to the number of rights which the subscriber has exercised.

The remaining 388,274 shares are being offered in exchange for present 6% cumulative preferred, 7% cumulative preferred and class A stocks of the company. This offer is on a "first come-first served" basis because the 388,274 common shares are insufficient for the exchange of all preferred and class A stocks. Any of the 468,621 common shares not taken by common stockholders also will be offered in exchange for the preferreds and A. The company intends to redeem all shares of the preferred stocks not acquired under the exchange offer.

The bases of exchange are 4.5436 shares of common for each share of 6% preferred; 4.7538 shares of common for each share of 7% preferred, and 4.7179 shares of common for each share of class A stock.

Cross-Winds and Currents in Business Outlook

(Continued from page 6)

Perhaps inflation was worse in the days when the dollar was not worth a continental; but last year it took more than $2.50 to buy the same bundle of raw materials that cost only $1 before the war. About 40 cents had been clipped by the pincers of inflation from the purchasing power of every consumer's dollar.

We recognized this as our most perilous short-term problem, and we also seemed agreed on its origin. We had emerged from a war which cost the world well over a trillion dollars solely for direct military costs. The United States alone expended one-third of a trillion dollars for its direct war effort. The human and physical wastes of World War II, its vast global destruction, the worldwide resort to deficit financing of unparalleled proportions and the accompanying outpourings of currency and credit became our postwar heritage.

Strangely, much of the economic loss inflicted by World War II appeared as an asset to the individuals affected, through their holdings of war bonds and related claims upon future production. This tremendous expansion of currency and credit has not been neutralized through any like increase in world production—the only known offset to inflation other than direct repudiation or debasement of the currency. The money bomb still retains most of its explosive power although it may be buried or obscured by the downward price readjustment of recent months.

Extent of Recovery from Inflation

Now, how far have we come in our fight against inflation? To what extent have the recent price adjustments contributed toward a sounder price level which in turn could provide a firm foundation for recovery and subsequent expansion? I mentioned earlier that about 40 cents of the consumer's dollar had been lost through inflation. As of September, 1949, only about 3 cents had been restored. The dollar this month is worth roughly 63 cents in terms of its prewar purchasing power. As for the dollar spent for raw materials, that still commands less than half of what it did before the war, and the same is true for the construction dollar. There is an even greater discount on the dollar spent for factory labor.

So after the recent readjustment our entire price structure remains suspended in the stratosphere. This does not necessarily mean, I believe, that we have to experience drastic, shattering deflation before a new "normal" price level is struck. Costs are the reverse side of the price coin. High unit-labor costs and expanded costs of government and social overhead are part and parcel of today's, and I suspect tomorrow's price structure. But many authorities believe that the point at which prices have come to rest, momentarily, still lies well above their eventual level.

So there is little cause for elation over our progress to date in correcting the inflation of World War II. We have restored only a few cents to a dollar which has lost about half its purchasing power through the bite of inflation. It is to this long-term problem our plans and programs for recovery must be increasingly oriented.

How shall we deal with these impelling problems — with our present recession, with the abiding problem of inflation? First of all, we must be certain that we find true solutions and avoid temporary rationalizations. We must be sure that our present actions are not at the expense of future expansion and our sustained long-term growth.

As our population continues to grow, its requirements of the goods and services that constitute the American standard of living grow with it. We have added the equivalent of two cities the size of New York to our numbers in the past decade. Our population, which means our domestic market, has just about doubled in size since 1900, and further growth is expected well into the end of this century.

More people, more consumers, call for an expansion of productive plant and output if we are to continue to maintain our present standards of living. We must expand our physical plant even more if we are to give future generations the tools to raise their planes of living at the rate we have achieved in the past.

This emphasis upon some thought for tomorrow's problems in consideration of today's ills is closely related to the charge of "do nothingism" that has been voiced so often since the recession began. Certainly few could accuse this nation of lack of programs, during the Thirties, all designed to meet the specific emergencies of that decade. With each added year of depression, new devices and schemes were introduced by government — often with industry's acquiescence—all designed to restore our economic health. In contrast to what has been labeled the "do nothing" policy of the present, we were engaged throughout the Thirties, which might be characterized as the first decade of the alphabetical era, in a "do everything" program, particularly by government.

The "Do Everything" Program

And yet at the end of that decade the conclusion was inescapable that the "do everything" program had failed. We entered the Forties with a heritage of nearly 9 million unemployed. As for our long-term goal of steadily rising living standards, the decade of the Thirties was the first in our nation's history in which the physical output of goods and services failed to rise. Even more significant, it was the first decade in which the physical plant which produces these goods and services was in poorer condition at the end than at the beginning.

So we have reason to be critical of the "do everything" philosophy as we search for a solution to our economic problems. And there are other pitfalls that must be avoided.

First, we must side-step the money illusion. We need an increasing recognition that a greater flow of dollars to individuals, whether in the form of wages or dividends or profits, does not in itself indicate sound national economic health or progress. Experience with swollen dollar incomes throughout the inflation has left many sectors of our population suffering from what we may term the "money illusion."

The record shows that our national output of goods and services arises slowly—perhaps at no more than 3% annually. And yet it is the cumulative growth at this plodding pace which has resulted in a standard of living that is unparalleled throughout the world. In response to various group pressures we can print or distribute our money faster, but when this is done, dilution or deterioration of our currency must inevitably follow. We have become accustomed, for example, to wage increases of 10, 12 or 20 cents an hour. Increases of five cents or less are inclined to be dismissed both by employers as well as employees—and even arbitrators or fact finders—as matters of minor moment. Modest as a five cent increase appears to be, it would siphon off the entire contribution such gains in productivity might otherwise have made toward a lower price level and toward restoring the dollar's purchasing power.

There is another form of monetary illusion. It is that income originating or distributed by government can sustain or improve our economic health. Government may facilitate the process of production or distribution, but few would argue that government itself contributes substantially to the net output of goods and services. It is this net output which determines our living standards. As the levy of government upon national output increases, the remainder of our social pie available for distribution is more likely to be diminished than increased.

The money illusion also disguises the rising costs of social overhead. We include government payrolls and related expenditures in our estimates of national income. We then contrast government spending with national income, and find support or solace for a high rate of government spending in the accompanying increase in national income. But the absolute size of government spending remains alarming in terms of its future impact. Much of government expenditure is fixed in character, fixed at a rate of expenditure which can be borne only in a period of high-level economic activity and extremely high prices. A declining price level would mean a sharp rise in the proportion of taxes to national income, well beyond the prevailing ratio of 25% that is today generally recognized as the "point of no return" for democratic nations.

Next to the money illusion, I place the productivity illusion. From all sectors, government, management and labor alike, greater productivity is cited as the source for greater real income and better goods and services for more people. More productivity is what the doctor orders, not only for Uncle Sam, but also for our neighbors abroad. Better tools, improved plant layout, more efficient flow of materials, these and related physical and mechanical facilities, it is said, will enable us to absorb our expanded social overhead, shorten the work week, raise wages and simultaneously contribute to lower prices.

We have had the greatest expansion of physical plant in our history in the decade just ending. First, the government created its brand new industrial empire during the war. Then private industry, primarily through the use of retained earnings and war-accumulated reserves, spent even greater sums for the same purpose. Yet our increase in productivity for this decade was the worst we have ever known. Why? Have we failed to gain the active and positive cooperation of the human element in the productivity equation? Productivity results from a combination of materials, tool power and men. Human input grudgingly given can offset the entire expansion of all of the other physical elements in the process of production. If the field of human relations in industry including incentives, the cultivation of cooperation, the stimulation of worker morale, continues to lie fallow or insufficiently cultivated, all the billions we pour into tool power may become virtually neutralized.

Undercurrent of Strife and Discord

But perhaps one of our most impelling problems is not a strictly economic one. Perhaps a solution lies in another area. For beneath our economic structure there runs an ominous undercurrent of strife and discord. Most of us have felt it. We see its expression all around us — in the tendency of some of our political, labor, business and civic leaders to subsitute vilification and malignment of motives for understanding — in the rancor and prejudice that preclude peaceful settlement of our disputes. Most of us are deeply concerned about it. And coupled with this concern is the knowledge of the burden of the costly commitments our government has made in its progress toward the Welfare State. We know that there is a limit to our capacity to pay taxes, if not in the government's appetite to borrow. We know that there is a limit to our will and ability to produce wealth, when that wealth is constantly drained away to meet the accumulated obligations of government. Our productive ability stems from freedom of competition and the right to enjoy freely the products of our enterprise. Government has steadily narrowed the individual's right to enjoy the fruits of his enterprise. And we are rightly jealous of this will and ability to produce. It is the secret of our free enterprise system, of our high standard of living. It is the basis of our freedom.

I share these grave concerns. As a business lawyer and executive, I have long pondered the causes for these fundamental weaknesses in our social structure. I have sensed that we are leaving something out—that there may be a blind spot in our understanding of the forces that motivate man—that condition his relationships with other men.

It was in the 19th century that Darwin's theories of man's origin and evolution were developed and widely discussed. That same period was one of tremendous industrial growth — a growth that brought with it a complex new society. The convulsive development of the time led to an emphasis on the dramatic side of man's struggle to exist and to survive. But there is an important complement to this struggle. Development and growth require progressive adaptation and collaboration as well. This is true in nature. It is equally true in social relationships. Perhaps we have underemphasized the cooperative aspect of social development.

The story of mankind is the story of man's long and hard struggle for liberty. Men have always fought desperately for freedom. But there is another side to man's nature. He wants to be free, but at the same time he craves the comfort of secure and satisfying social relationships. He will not be content in a society that denies him this satisfaction.

What did our enormous industrial development do for society? It greatly enhanced living standards. But did the rapidity and immensity of that growth outstrip our capacity to organize for satisfactory social relationships? Many social scientists believe that the abrupt changes from stable ties with communities, the ancestral homes, and religious institutions are the causes of much of human confusion. We all sense the fear and loneliness in men's hearts. And when men feel this lack of belonging to a stable social organism, they turn in desperation to the false promises of demagogues — they more readily come to believe in economic magic.

Why is the record of man's magnificent struggle for status and dignity marred by ignorance and confusion? Have we missed something in leadership? Have we indeed overlooked the secrets of true leadership? Wars have taught us the techniques of temporary and superficial leadership based on force. Can we subsitute for that concept one based on cooperation, understanding, sincerity, knowledge and mutual respect? These are the things that will restore men's confidence, that will avail against half-truths and isms.

And these are the human problems that cry out for clarification, the areas that may hold the keys to enduring solutions of our social and economic problems. The failure so far to solve them may be largely due to our incapacity to define them in the first instance with sufficient precision.

Twenty years ago, the Hoover Commission in its monumental reports on economic and social change, described these problems as they began to appear in the first-quarter of the century. The century's second-quarter has brought even more astounding developments. How much more important that we should study them now. What better service could business and our great foundations render than to continue these studies. Enlightenment in this field — the facts of man's needs, of his necessary social relationships, of the appropriate and balanced functions of government, and the balanced relationship of all of these — these are the tools we need to cope with the uncertainties of the second-half of this stormy century.

Whether or not such a cooperative study is made possible, the staff of The Conference Board, with the guidance and help of our Members and Trustees, will continue to train the spotlight of fact on the twilight zones of half-truth, on the dark zones of ignorance. We will do our best to present simply, clearly, and without bias to business, labor, and government the important and sometimes brutal facts of our economic and social structure and their fundamental interrelationships.

God grant us the wisdom and strength to make this task worth while and effective in the interests of mankind and for the betterment of society.

S. B. Cantor & Co. Offers Southern Oil Common

S. B. Cantor & Co. is offering an issue of common shares (par value 1¢) of the Southern Oil Corp. at $1 per share. The stock is being offered as a speculation. The total number of shares involved in the company's financing is 1,500,000 shares, of which 28,850 shares were sold by the predecessor underwriter, Petroleum Equities Corp. The Southern Oil Corp. is engaged in the business of purchasing and acquiring producing and non-producing interests in oil and gas properties, oil and gas leases, the producing of oil and gas, and is also engaged in the drilling of wells for itself and others, as contractor.

Paine, Webber Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — William L. Grace has been added to the staff of Paine, Webber, Jackson & Curtis, 24 Federal Street, members of the New York Stock Exchange.

H. L. Emerson Adds

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Helen C. Smith is with H. L. Emerson & Co., Inc., Union Commerce Building, members of the Cleveland Stock Exchange.

With Robert Bowers Co.

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO. — Joseph W. Hicks has become connected with Robert D. Bowers & Company, Cooper Building.

Sloan & Wilcox Adds

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, OREG. — Oscar Shaw is with Sloan & Wilcox, Cascade Building.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Last week's setback not enough to put stocks in buying zone. Hold lines until stocks go lower.

There were a couple of days last week when it looked as if the market would get down to the 175 figure a lot quicker than I thought, and the stocks suggested for purchase would become available before the next column was written. As it turned out, there were a couple of weak days, but the market held above the 177 figure so nothing much happened.

* * *

Devaluation is now gradually being relegated to the back seats though I believe its importance to the stock market cannot be overestimated. I am morally certain, for example, that we agreed to support the new value of the pound, if for no other reason than that the British wouldn't devaluate without some concrete promises from us. We will gradually learn more about this and other matters as time goes on.

* * *

In the meantime the strike picture seems to dominate the economic and market picture. I don't know if there will be a steel or automobile strike. I'm going along, however, on the assumption that it will happen. In fact I prefer to look on the gloomy side of the news more often than the bright side. If the bad things don't happen, so much the better. If they do, they don't come as a surprise. A trader should be prepared for the unexpected at all times. Agility in trading depends on it. Not only is preparedness necessary, but with it an ability to move.

* * *

To have that ability you have to have the least amount of restrictions tieing you down. Being solidly committed is a major handicap. There's only one time such a position is warranted—when stocks are down and everybody thinks they're going lower.

* * *

To be long up to your neck when stocks are strong and optimism is running high is asking for losses. It doesn't take any sagacity or foresight to go overboard when the market is strong. Everybody's bullish, so the new buyer has plenty of company.

* * *

When things are doubtful and gloom is spreading, the longs of yesterday are usually in a hot seat debating what to do. When the doubts are removed and gloom is all pervading, these longs get out. It is then that I consider stocks a buy. One of the reasons is that it goes against the general belief and trend.

* * *

When I suggested buying stocks last week I obviously expected a break in the averages. The minor setback of last week was not enough. I think you'll get more of the same. In the meantime you were able to get Denver Rio Grande 22-23. Now that you have it, stop it at 21. The rest of the buying is to be postponed until stocks get within the prices mentioned here last week.

More next Thursday.

—Walter Whyte.

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Tellier & Co. Offers Lexa Oil Common

Tellier & Co. is offering, as a speculation, 1,200,000 shares of common stock of Lexa Oil Corp. The stock is priced at 25 cents a share.

Proceeds from the sale of these shares will be used for organizational expense, for the drilling and equipping of one well, if productive, and the balance will be added to working capital, and used particularly to acquire oil leases, properties and interests and the drilling of other wells.

Lexa Oil Corp. was organized May 27, 1949, for the purpose of exploring for oil and the development of likely oil prospects and more particularly to drill a well on a certain tract. The corporation owns 19 different leases or operating agreements covering some 7,400 acres, more or less, which were acquired for and in consideration of the issuance of 1,200,000 shares of the company's common stock.

Joins duPont, Homsey

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Frank L. Young II is now associated with duPont, Homsey & Co., 31 Milk Street, members of the New York Stock Exchange. Mr. Young was previously with R. W. Pressprich & Co. and Graham, Parsons & Co.

Kidder, Peabody Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Sherrill Kent has become associated with Kidder, Peabody & Co., 115 Devonshire Street.

Pension and Welfare Funds

(Continued from page 9)

ing for reductions in wage rates. Such arrangements might be easier to "sell" to rank and file than flat wage reductions. Finally, even if the rank and file did become aroused, their rights in the existing welfare program would exert strong pressure to keep them from "kicking over the traces."

Sixth, the administration of pension and welfare funds provides union leaders with a source of appointive, and perhaps well-paying, jobs. These funds are important to labor leaders from the standpoint of the patronage which it enables them to dispense. A striking example is provided by the controversy during the spring of 1948 over the welfare program of the United Mine Workers in the bituminous coal industry. One of the objectives of John L. Lewis, which appears to have been more or less overlooked for more dramatic aspects of the strike and its settlement, was the seizure of administrative control of the fund.

Seventh, social insurance funds can be a powerful weapon for internal union discipline. A casual perusal of the union rules governing such funds will disclose that almost invariably a basic requirement of worker eligibility for benefits is "good standing" in the union. It happens that the union—which usually means the administration—can determine to a considerable degree who is and who is not in "good standing."

Some of the above may seem academic, since the Taft-Hartley Act requires equal employer-union representation in the administration of social insurance funds receiving employer contributions. Employer representation does not mean employer control. There can be employer representation with the fund effectively and completely under union control. The welfare fund of the United Mine Workers serves as an example.

An Analogy

The political implications of welfare funds may be enriched by a parallel from labor history. There was a period, during the 1920's, when banks were the fad in certain segments of the labor movement.[6] The arguments for labor banks included the following: (1) they could finance a union during a strike or lockout, (2) they could help workers by fostering the cooperative movement in the United States, and, (3) they would increase worker security, by making small loans at low interest rates. In none of these aims did the majority of labor banks achieve any marked success. Professors Millis and Montgomery point out that,[7]

"With the success of the first labor banks, other, and sometimes less laudable, motives began to play a part in the rapid expansion of the movement. Not only were advantages for the union sought, but also personal gains such as the chance of position as bank officers with good salaries. The extreme example of this is offered by the banking and other cooperative enterprises of the Brotherhood of Locomotive Engineers after 1923, in which the interest in salaries and commissions kept the projects expanding more than did such motives as the earnings for the Brotherhood or the advancement of the labor movement.

"One of the important points to bear in mind is that many of the banks (eleven) were sponsored by one union, the Brotherhood of Locomotive Engineers, and the collapse of the financial enterprises of that one organization did much to discredit the labor banking movement as a whole. In June, 1927, just before the convention of the Brotherhood, its Philadelphia bank was sold because of lack of success. The disclosure at the convention that year of the huge losses, errors in judgment, betrayals of confidence, nepotism, inefficiency, and extravagance were blows from which the labor banking movement did not recover.

"*Of the factors that contributed to the failure of labor banks, union politics was perhaps of first importance.* In some of the stronger and more successful banks this factor was of negligible importance, but in others it prevented adherence to sound banking practices. *Union politics expressed itself in desire for prestige of the union, in personal ambition of its officers, and in emphasis upon personalities. Sometimes offices, loans, and commissions were arranged with an eye to advancing the group in power in the union or nepotism and jealousy of outside banking interests prevented the appointment of a trained and competent executive officer. . . .* It is not to be assumed that petty politics and incompetent officers were an exclusive feature of labor banks, but supporters of labor banks did not generally anticipate these difficulties."

The fact that union politics was an important element in the record of labor banks, just as it may be in social insurance funds, does not condemn either the former or the latter. *It does make mandatory an honest appraisal of political factors, so that the story of labor bank failure and disappointment will not become the story of social insurance funds.*

It must be noted that the record shows a drop from a peak of 36 labor banks in 1925, to four in 1935. These four have been stable and still exist. To keep the picture accurate, it must be noted that these four labor banks have been outstanding successes. The four are: The Amalgamated Trust and Savings Bank, Chicago, Ill.; The Brotherhood State Bank, Kansas City, Kan.; The Union National Bank, Newark, N. J.; and The Amalgamated Bank of New York, New York City. As of Dec. 31, 1946, these four banks had total assets of $95,003,829. This compares startlingly with the $115,015,273 total assets of 36 labor banks on Dec. 31, 1925. Actually, to complete the picture, it must be revealed that the real success story is that the two Amalgamated banks accounted for 76.4% of the total assets of all four labor banks in December, 1946.[8]

Recommendations

Great good can come from pension and welfare funds. To encourage such good, it appears from the preceding analysis that certain rules should be observed. These rules are:

(1) Basing the contributions to the funds on sound actuarial principles.

(2) Strict regulations to minimize malingering and political use of the funds. Careful study of the basis for contributions (noncontributory or contributory), in order to determine which would be most conducive to honest and efficient operation of the funds. Such study would have to consider, in addition, the effect of contributory funds on worker take-home pay and the educational task made necessary as a consequence.

(3) Worker education to a recognition of the fact that employers deserve some credit for the establishment of such funds.

(4) Professional administration of the funds so that they do not become political adjuncts to union administration.

Actuarial study is necessitated by the tendency to accumulate excessive reserves. Overly large reserves are objectionable for several reasons. They may have a corrosive effect upon the honesty of union administration. They may encourage malingering. They represent an unnecessary addition to labor cost. They may grow into a sizeable pool of idle capital. Alternatively, they might encourage some union leaders to make unwise business investments. The history of labor banks is of more than passing interest in this last respect.

Not all social insurance funds show excessive reserves. Some are inadequate in this respect. Thus, actuarial study is useful and desirable, because it can provide a scientific basis for the determination of benefit payments, the size of contributions, and what constitutes a desirable reserve.

I do not wish to make a fetish of the point that actuarial study is a cure-all which would safeguard pension and welfare funds from all financial ills. In the first place, effective publicity can serve as a deterrent to the accumulation of excessive reserves. In the second place, actuarial study is subject to biais and partisan feeling. Justice Goldsborough realized this in his decision favoring the United Mine Workers in the summer of 1948. The New York "Times" reported his opinion as follows:[9]

"Brushing aside the Van Horn contention that the pension plan was not actuarially sound, the Court remarked it had little regard for actuarial studies as 'actuaries can reach very many different conclusions if they want to reach them.'"

Awareness of the possibility of bias in actuarial study does not damn such study. Scientific, factual investigation of risks remains vital to the establishment of sound social insurance funds. The danger inherent in Justice Goldsborough's opinion is that it may lead to an out-of-hand rejection of actuarial investigation. The results can be tragic in terms of human disappointment, disillusionment and despair. The unhappy proof is provided by the experience of the United Mine Workers' Pension and Welfare Fund. This is the same Fund activated by Justice Goldsborough's 1948 decision, which expressed little regard for actuarial study. *The Fund has suspended payments.*[10] Evidently, it is actuarially weak in at least two respects. First, its contributions, based on the coal industry's volume of operations (20 cents royalty per ton of coal mined), are subject to sudden and drastic curtailment due to a variety of possible causes. Second, its payments, in relationship to income and the obvious danger of vicissitudes in income, do not permit the accumulation of reserves capable of sustaining benefit payments despite short-run adversities. Plainly, careful actuarial study is a major requisite for long-lived pension and welfare funds. The vaunting political ambitions of certain labor leaders must not be permitted to obscure this truth.

Adherence to these principles would help insure the long-run success of pension and welfare funds in carrying on their real objective. This objective is to improve the health and security of American workers. Such improvement would, of course, react favorable on worker efficiency, making possible a higher level of production and a better standard of life.

6 Left wing unions were hostile to them, and the AF of L was distinctly cool.

7 Millis and Montgomery, "Organized Labor," McGraw Hill, N. Y., 1945, pp. 346, 347, 348, 349. Italics added.

8 "*Monthly Labor Review*," May 1947, p. 834.

9 *New York "Times,"* June 23, 1948, p. 19.

10 The *New York "Times,"* Sept. 17, 1949, p. 1.

Switzerland's Appraisal Of Devaluation

(Continued from first page)

many arduous steps such as gradually relaxing trade restrictions—as Britain has just done on tin—rearranging Britain's sterling liabilities, getting her cost-price and domestic budgetary and social aims situations in shape, and others.

It is regarded a surprising error by Britain to be so much less concerned for convertibility than are other nations—since convertibility is to Britain's genuine self-interest far more than to other nations, as this is the prerequisite for her regaining her world banking position or even retaining what status she still possesses.

As elsewhere, there is also some contradictory opinion here, held by high un-ECA officials in Geneva, maintaining multilateral trade convertibility and abolition of Schachtian methods are out of the question because of chronic conditions of trade imbalance. It is also felt by many American officials here that a U. S. rise in the gold price is a prerequisite to free trade.

And in any event the one point on which there is naturally unanimity outside the United States is the pleas for American tariff reductions.

* * *

Split Politico-Economic Trends

ROME, ITALY—Observation of the politico-economic trends in the Continental countries leads to the inescapable conclusion that they are moving in two opposite directions at the same time. France and Italy furnish perfect examples of this: both the Queuille government in Paris and the Christian-Democratic administration here (ECA-encouraged) are basically desirous of furthering free enterprise. They have committed themselves to preventing at least further Socialist encroachment—but in practice they are continually operating in a way which must threaten maintenance of an even keel of freedom. Through their continuing acts and policies they are definitely, if unwittingly, shoving their people along the road to the Welfare State.

In their definite desire to maintain the free enterprise keel, the Continental countries differ from the doctrinaire professions of the British Laborites. Even now, at devaluation time, Sir Stafford Cripps hastens to proclaim that while government expenditures should be cut, those devoted to social gains are sacrosanct. In the other countries—as France, Belgium, Switzerland—steps with a socializing effect are being taken unwittingly and unwillingly, and not with an ideological aim.

France's Split Personality

Of France, it can be said that she is simultaneously trending to the Right politically and to the Left economically. The people, who have ingrained individualism, don't realize they actually have the Welfare State, sincerely don't want it in principle, but like the benefits—and will probably keep on voting for them. If M. de Gaulle should by chance ever take over, even his brand of third degree **political** Rightism would be accompanied by already-indicated radical **economic** programs out-performing Mr. Murray and the CIO. But partly because of the Frenchman's individualism and partly because of his disillusionment with past Welfare-ism, the Left trend is in reverse politically, and will not be furthered knowingly.

There are assuredly many important "Rightist" splinters in the splitting of France's economic personality. In the field of taxation, for example: There was a substantial cut effected this year in the levy of income from securities; to 18% from 30% in 1943-1948, and from 27% ten years ago. And the total tax burden, direct and indirect, of the French citizen is estimated as barely 40% of the Britisher or American.

There are many other manifestations of a "swing toward freedom." The government-decreed double standard of prices on petroleum has recently been abandoned. The provisions for withdrawability of foreigners' capital investment have been liberalized. And while there has been great budgetary inflation, recently the number of government employees on the "bureaucracy-payroll" has been decreasing. And government expenses—at 20/25% of national income, are not higher than other countries, including the U. S.

But there are still many manifestations of interventionism and the "Spoils State"—partly because the government has a "bear by the tail" and partly because of political necessity. Nationalized are the Bank of France, plane manufacturers, the railways (through 51% state-ownership), gas and electricity companies, coal mines, one motor company (Renault), the four big banks with 55% of the nation's deposits, and the radio broadcasting companies.

Social security payments remain high, at 34 billion francs vs. 1.8 billion in 1938; with sick benefit payments having risen from 1.5 to 46 billion. While the number of government employees is being held down, the 1⅓ million on the payroll were a few months ago given a gratuitous bonus. Further indicative of the tax burden imposed by government expenditure are the figures of three months, which is the amount of work contributed each year by the worker for the cost of his government (versus 61 days in the United States).

A **real** housecleaning and real de-lousing of interventionism in France is still far in the offing.

Cross-Currents in Italy

In Italy, too, there is a dichotomous situation—ascribed, with some justification, to the socialist hand-me-downs from the Mussolini regime. Government officials, high and low, as well as the voter-in-the-street really want free enterprise. They point to the fact that there is no nationalization excepting in railroads, telegraph, radio and munitions. Yet there is broad government participation in business through the medium of IRI, a domineering counterpart of the RFC, and founded at the same time and for the same reasons. IRI has a stock interest, and usually control, on a vast scale of banks and industrial companies throughout the nation.

Building is going on in Italy at a tremendous rate now, because there is no rent control on new buildings. But on old structures there are price and rent controls; so no repairs are being made and many 19th century buildings seem ready to fall into the excavations of the ruins of the Roman Forum.

It is frankly stated by government officials that the cost of the legislated social security is much too high (it takes 30% of salaries, without worthwhile returns). Yet since its expansion under the Fascist regime, little can be done toward its curtailment.

In the tax legislation about to be introduced in Parliament, income tax rates are to be reduced, and the base broadened. But, on the other hand, the corporate rates as well as the individual's, are highly progressive. There is no capital gains tax, but there was a one-time capital levy assessed in 1947.

Indicative of the contradictory situation is recent holding forth by a high Cabinet officer to this writer as to the evils of government bureaucracy, interventionism, and business interference—spelling out the reasons in the best "NAM" manner. Yet, in the next breath, he itemized several farm products, as wheat, beet sugar, and vegetable oils, and even industrial products, as aluminum, on which the government is fixing prices, in lieu of subsidization.

The reasons for these cross-currents and antithetical goings-on are of course most intricate, having their roots in political as well as economic considerations, and in the past two wars. A pity it is, though if, as it seems, the people of a country do not at least recognize whither they are going, over the short- and long-terms.

Somewhat similarly in the international field, the planners are crying for increased productivity and currency convertibility at the same time as they are urging stringent import controls and restrictive taxation.

Truman Extols "Welfare State"

(Continued from page 3)

Federal aid to the states to help them improve their schools. A bill providing such aid has already passed the Senate and is now awaiting action in the House of Representatives. I shall continue to urge Congress to pass this legislation.

Calls for Health Program

We must also act promptly to improve the health of our nation. The women of the country, particularly, know that in many areas there are not enough doctors or hospitals and that many families cannot afford the medical care they need. This Administration has proposed a program of improved medical care. Some parts of this program, such as expanded health services for school children and additional aid for hospital construction, have already passed the Senate. Our medical program will mean happier homes, healthier children and greater opportunity for useful lives for all our people.

A good system of social security is also essential to our welfare. We established the principle a long time ago that the people of this country can protect themselves against the hazards of life and the burdens of old age by a system of social insurance. We need to make improvements in our social-insurance system at this time because its benefits are entirely too low to meet current living costs. We should bring this system up to date by increasing its benefits and extending its protection to more people. This is part of the program to which the Democratic party is firmly committed. The 81st Congress is going to improve our social-security system.

Minimum Wages and Social Security

Another part of the Democratic program is to increase the minimum wage for industrial workers from 40 to 75 cents an hour. A bill for this purpose is well along toward final passage in the Congress, and I am confident that it will become law very shortly.

Minimum wages and social security together protect our working people against disastrously low incomes. Farmers need safeguards against low incomes, too. The Democratic party has taken the lead in working for a program for lasting farm prosperity, for we know that the welfare of the country depends upon the welfare of the farmers.

We are determined to see that our economy continues to grow and expand. That is why we are enacting laws to provide for better use of our abundant natural resources, to develop more electric power and to bring water to areas in need of it.

Above all else, we want to keep the United States prosperous and strong because we know that our prosperity is the best guaranty of peace. Every measure to promote the general welfare in this country is a measure to promote peace in the world.

The program of the Democratic party is a program for prosperity and peace. It can be made effectively only through the united efforts of our citizens.

Local Governments Must Cooperate

It is not enough for the Congress to pass these measures. They have to be brought to life by the citizens of this country and by our state and local governments. Our public-housing program will not be effective unless local authorities, backed by alert citizens, are active in building and operating local housing projects. Our program of aid to education will not be effective unless there is efficient and public-spirited home-town and home-state administration. Our farm program depends upon the joint effort of our farmers in county committtees and rural co-operatives.

Only the people, working together, can make our program a success.

I ask you to bear that in mind when you hear people saying that measures for the general welfare are merely Federal handouts to the shiftless or the incompetent. I ask you to bear it in mind when you hear our opponents saying that our program is undermining local government and the moral character of our citizens.

The facts are just the opposite. Our program increases opportunity and incentive among our citizens. It increases the responsibilities and activities of local government.

The American people are not afraid of their government, because they know it belongs to them, and they control it. Now, more than ever before, the people realize that they can use their government to help achieve wider opportunity and greater security—to help achieve real independence for themselves and their children.

This concept of government has been greatly advanced by the increasing participation of women in our political life, with their straightforward approach to public affairs. I am confident that the women of the United States will continue to exercise their democratic rights in order to build a happier and more prosperous nation.

Ryan With Fusz-Schmelzle

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO. — Francis J. Ryan is now affiliated with Fusz-Schmelzle & Co., Boatmen's Bank Building, members of the St. Louis Stock Exchange. In the past he was with Stifel, Nicolaus & Co. and George F. Ryan & Co.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—John V. Bradley, Clarence E. Brown, and Henry M. Hellerud are now associated with Waddell & Reed, Inc., 1012 Baltimore Avenue.

With Griffin & Vaden

(Special to THE FINANCIAL CHRONICLE)

RALEIGH, N. C. — Edward F. Griffin is with Griffin & Vaden, Inc., Insurance Building.

Banking Group Offers Tenn. Gas Transmission Preferred and Common

An underwriting group headed by Stone & Webster Securities Corp. and White, Weld & Co. offered to the public Sept. 27 100,000 shares of new 4.65% cumulative preferred stock, par value $100, and 400,000 shares of additional common stock, $5 par value, of Tennessee Gas Transmission Co. The preferred stock was priced at $103.50 per share plus accrued dividends. The offering price of the common stock was $30.25 per share.

Proceeds of this financing will be used along with other cash resources of the company for the expansion of its natural gas pipe line system which now extends from the San Salvador field in the Rio Grande Valley of Texas into West Virginia, a distance of 1,364 miles. Deliveries through the system during the first seven months of 1949 averaged approximately 607,000,000 cubic feet of natural gas per day and the company expects to increase delivery capacity to 710,000,000 cubic feet per day by the end of 1949.

Authorization has been granted by the Federal Power Commission to expand the delivery capacity of the system to 1,060,000,000 cubic feet per day, including a 395-mile extension from Greenup, Kentucky, to a point near Buffalo, New York. The company has an application pending before the Federal Power Commission for authorization further to increase the delivery capacity of the system to 1,260,000,000 cubic feet per day by extending its pipe line system from Buffalo to a point near Worcester, Massachusetts.

The company currently purchases all of its natural gas requirements in Texas and Louisiana fields under long-term purchase contracts. Its principal deliveries are to The Columbia Gas System, Inc., and Consolidated Natural Gas Company. It also sells gas under contract to a number of other customers. A wholly-owned subsidiary, Northeastern Gas Transmission Company was formed in August, 1949, and has applied to the Federal Power Commission for a certificate to distribute natural gas in the New England States.

Common stockholders of record Oct. 14, 1949, including holders of record of the common stock currently being offered, will be entitled to the distribution, authorized by the company's directors on Sept. 1, 1949, of one additional share of common stock for each four shares held on the record date. Since the initial payment in the last quarter of 1947 cash dividends have been paid on the common stock at the annual rate of $1.40 per share.

Tennessee Gas Transmission Co. reported for the 12 months ended July 31, 1949, total operating revenues of $37,903,509 and net income of $8,303,952. For the 1948 calendar year operating revenues were $28,427,551 and net income $6,761,266.

Giving effect to the sale of the common and preferred stocks and the distribution to holders of the common stock, the company will have outstanding 300,000 shares of preferred stock and 4,666,666 shares of common. Funded debt amounts to $159,270,000.

With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Simon J. Green is with Bache & Co., National City E. Sixth Building.

With Sweney, Cartwright

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, OHIO — Jack P. Snyder is with Sweney, Cartwright & Co., Huntington Bank Building.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Oct. 2	84.6	86.2	86.3	96.4
Equivalent to—					
Steel ingots and castings (net tons)	Oct. 2	1,559,600	1,589,100	1,591,000	1,737,600
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Sept. 17	4,845,300	4,850,550	4,722,000	5,294,350
Crude runs to stills—daily average (bbls.)	Sept. 17	¶5,306,000	5,248,000	5,241,000	5,187,000
Gasoline output (bbls.)	Sept. 17	17,845,000	18,270,000	18,195,000	16,122,000
Kerosene output (bbls.)	Sept. 17	1,759,000	1,992,000	1,634,000	2,096,000
Gas, oil, and distillate fuel oil output (bbls.)	Sept. 17	6,667,000	6,455,000	6,042,000	7,036,000
Residual fuel oil output (bbls.)	Sept. 17	7,485,000	7,808,000	7,496,000	7,635,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Sept. 17	103,331,000	104,375,000	107,612,000	91,800,000
Kerosene (bbls.) at	Sept. 17	26,436,000	26,608,000	25,822,000	25,290,000
Gas, oil, and distillate fuel oil (bbls.) at	Sept. 17	80,114,000	78,231,000	75,312,000	69,090,000
Residual fuel oil (bbls.) at	Sept. 17	68,527,000	*69,161,000	68,157,000	57,313,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Sept. 17	§743,022	§624,197	731,215	909,989
Revenue freight received from connections (number of cars)	Sept. 17	§570,575	§522,766	571,474	703,433
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Sept. 22	$188,659,000	$156,021,000	$147,684,000	$100,303,000
Private construction	Sept. 22	95,673,000	66,175,000	79,788,000	42,009,000
Public construction	Sept. 22	92,986,000	89,846,000	67,896,000	58,294,000
State and municipal	Sept. 22	64,267,000	84,226,000	48,024,000	37,922,000
Federal	Sept. 22	28,719,000	5,620,000	19,872,000	20,372,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Sept. 17	8,400,000	*5,980,000	7,550,000	12,205,000
Pennsylvania anthracite (tons)	Sept. 17	944,000	788,000	794,000	1,230,000
Beehive coke (tons)	Sept. 17	7,200	11,300	9,900	149,500
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Sept. 17	315	*273	252	337
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Sept. 24	5,555,641	5,579,105	5,523,316	5,460,609
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Sept. 22	169	185	176	101
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Sept. 20	‡3.705c	3.705c	3.705c	3.720c
Pig iron (per gross ton)	Sept. 20	$45.88	$45.88	$45.91	$44.74
Scrap steel (per gross ton)	Sept. 20	$27.42	$25.75	$21.92	$43.16
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Sept. 21	17.325c	17.325c	17.325c	23.200c
Export refinery at	Sept. 21	17.550c	17.550c	17.550c	23.425c
Straits tin (New York) at	Sept. 21	103.000c	103.000c	103.000c	103.000c
Lead (New York) at	Sept. 21	15.125c	15.125c	15.125c	19.500c
Lead (St. Louis) at	Sept. 21	14.925c	14.925c	14.925c	19.300c
Zinc (East St. Louis) at	Sept. 21	10.000c	10.000c	10.000c	15.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Sept. 27	103.85	104.01	103.71	100.70
Average corporate	Sept. 27	115.04	115.04	114.85	111.44
Aaa	Sept. 27	120.84	121.04	120.84	116.41
Aa	Sept. 27	119.20	119.20	119.00	114.27
A	Sept. 27	114.27	114.27	114.08	110.70
Baa	Sept. 27	106.39	106.39	106.21	104.83
Railroad Group	Sept. 27	109.60	109.60	109.60	107.27
Public Utilities Group	Sept. 27	116.22	116.22	115.82	112.00
Industrials Group	Sept. 27	119.41	119.41	119.41	115.24
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Sept. 27	2.22	2.21	2.23	2.45
Average corporate	Sept. 27	2.90	2.90	2.91	3.09
Aaa	Sept. 27	2.61	2.60	2.61	2.83
Aa	Sept. 27	2.69	2.69	2.70	2.94
A	Sept. 27	2.94	2.94	2.95	3.13
Baa	Sept. 27	3.37	3.37	3.38	3.46
Railroad Group	Sept. 27	3.19	3.19	3.19	3.32
Public Utilities Group	Sept. 27	2.84	2.84	2.86	3.06
Industrials Group	Sept. 27	2.68	2.68	2.68	2.89
MOODY'S COMMODITY INDEX	Sept. 27	345.0	345.4	338.3	413.9
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Sept. 17	197,991	172,955	186,039	173,044
Production (tons)	Sept. 17	205,128	157,135	188,028	192,334
Percentage of activity	Sept. 17	92	72	87	97
Unfilled orders (tons) at	Sept. 17	369,573	380,248	310,125	386,808
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Sept. 23	129.3	129.6	129.3	143.6
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	Sept. 10	12,586	13,231	19,296	15,453
Number of shares	Sept. 10	351,896	368,146	567,437	453,139
Dollar value	Sept. 10	$14,312,271	$14,620,408	$21,453,998	$18,668,874
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Sept. 10	15,141	16,132	19,279	15,675
Customers' short sales	Sept. 10	119	157	198	57
Customers' other sales	Sept. 10	15,022	15,975	19,081	15,618
Number of shares—Customers' total sales	Sept. 10	389,619	430,572	544,392	430,849
Customers' short sales	Sept. 10	4,760	5,860	7,537	2,074
Customers' other sales	Sept. 10	384,859	424,712	536,855	428,775
Dollar value	Sept. 10	$12,680,631	$13,494,269	$17,485,755	$15,620,831
Round-lot sales by dealers—					
Number of shares—Total sales	Sept. 10	162,960	183,960	191,590	140,830
Short sales	Sept. 10	------	------	------	------
Other sales	Sept. 10	162,960	183,960	191,590	140,830
Round-lot purchases by dealers—					
Number of shares	Sept. 10	117,330	132,670	206,550	151,030
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Sept. 20	154.1	154.6	151.9	169.5
Farm products	Sept. 20	162.4	165.6	159.8	192.4
Foods	Sept. 20	166.3	166.3	161.3	189.6
All commodities other than farm and foods	Sept. 20	145.9	145.9	144.9	153.1
Textile products	Sept. 20	141.1	141.3	139.7	147.6
Fuel and lighting materials	Sept. 20	131.0	130.7	130.0	136.7
Metals and metal products	Sept. 20	169.3	168.9	167.9	172.0
Building materials	Sept. 20	190.2	190.2	189.6	204.1
All other	Sept. 20	124.7	125.1	124.0	134.9
Special indexes—					
Grains	Sept. 20	155.1	157.6	149.1	176.8
Livestock	Sept. 20	208.1	214.2	203.4	272.5
Meats	Sept. 20	230.1	237.7	224.8	282.9
Hides and skins	Sept. 20	198.9	‡198.9	195.8	208.9

*Revised figure. ¶Includes 440,000 barrels of foreign crude runs. ‡The weighted finished steel composite was revised for the years 1941 to date. The weights used are based on the average product shipments for the 7 years 1937 to 1940 inclusive and 1946 to 1948 inclusive. §Reflects effect of five-day week effective Sept. 1, 1949.

	Latest Month	Previous Month	Year Ago
ALUMINUM WROUGHT PRODUCTS (DEPT.) OF COMMERCE)—Month of July:			
Total shipments (thousands of pounds)	71,730	80,674	131,028
AMERICAN PETROLEUM INSTITUTE—Month of June:			
Total domestic production (bbls. of 42-gallons each)	159,062,000	166,622,000	177,880,000
Domestic crude oil output (bbls.)	147,098,000	154,146,000	166,330,000
Natural gasoline output (bbls.)	11,953,000	12,465,000	11,522,000
Benzol output (bbls.)	11,000	11,000	28,000
Crude oil imports (bbls.)	12,000,000	12,669,000	9,749,000
Refined products imports (bbls.)	5,927,000	5,074,000	4,011,000
Indicated consumption—domestic and export (bbls.)	173,340,000	*173,982,000	181,282,000
Increase—all stock (bbls.)	3,649,000	*10,383,000	10,358,000
AMERICAN TRUCKING ASSOCIATION—Month of July:			
Number of motor carriers reporting	318	*318	318
Volume of freight transported (tons)	2,859,681	*3,121,144	2,897,985
BANK DEBITS — BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—			
Month of August (in thousands)	$98,804,000	$98,484,000	$97,940,000
BANKERS DOLLAR ACCEPTANCES OUTSTANDING — FEDERAL RESERVE BANK OF NEW YORK—As of August 31:			
Imports	$116,864,000	$116,656,000	$142,723,000
Exports	37,440,000	44,179,000	39,877,000
Domestic shipments	8,694,000	9,650,000	9,118,000
Domestic warehouse credits	9,384,000	9,289,000	10,686,000
Dollar exchange	1,039,000	456,000	1,179,000
Based on goods stored and shipped between foreign countries	15,892,000	13,429,000	17,196,000
Total	$189,313,000	$193,659,000	$220,779,000
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD — Month of August:			
Total U. S. construction	$781,416,000	$619,442,000	$560,292,000
Private construction	371,440,000	221,502,000	229,515,000
Public construction	409,976,000	397,940,000	330,777,000
State and Municipal	335,813,000	292,101,000	253,217,000
Federal	74,163,000	105,839,000	77,560,000
COAL OUTPUT (BUREAU OF MINES)—Month of August:			
Bituminous coal and lignite (net tons)	37,752,000	26,040,000	53,779,000
Pennsylvania anthracite (net tons)	3,635,000	3,921,000	5,129,000
Beehive coke (net tons)	41,600	*38,900	640,100
COKE (BUREAU OF MINES)—Month of July:			
Production (net tons)	4,949,486	5,510,375	6,191,100
Oven coke (net tons)	4,910,614	*5,242,437	5,738,000
Beehive coke (net tons)	38,872	*267,938	453,100
Oven coke stocks at end of month (net tons)	1,906,417	1,705,236	939,677
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM)—(1935-39 Average=100) Month of August:			
Adjusted for seasonal variation	284	*230	309
Without seasonal adjustment	233	*218	259
FABRICATED STRUCTURAL STEEL (AMERICAN INSTITUTE OF STEEL (CONSTRUCTION)—Month of July:			
Contracts closed (tonnage)—estimated	124,256	*96,952	177,687
Shipments (tonnage)—estimated	141,120	*172,260	160,780
FREIGHT CAR OUTPUT—DOMESTIC (AMERICAN RAILWAY CAR INSTITUTE—Month of August:			
Deliveries (number of cars)	7,178	6,434	Not Avail.
Backlog of orders at end of month (number of cars)	28,731	36,564	117,815
MAGNESIUM WROUGHT PRODUCTS (DEPT.) OF COMMERCE)—Month of July:			
Shipments (in pounds)	748,000	752,000	205,000
MALLEABLE IRON CASTINGS (DEPT. OF COMMERCE)—Month of July:			
Shipments (short tons)	44,360	59,597	64,995
For sale (short tons)	23,216	32,639	35,018
For producers' own use (short tons)	21,144	26,958	29,977
Orders booked, less cancellation, for sale (short tons)	24,147	23,560	36,679
Unfilled orders, end of month, for sale (short tons)	70,796	69,865	180,421
METAL OUTPUT (BUREAU OF MINES)—Month of July:			
Mine production of recoverable metals in the United States:			
Copper (in short tons)	57,034	*61,413	71,341
Gold (in fine ounces)	159,501	*164,490	183,221
Lead (in short tons)	30,273	*36,162	23,301
Silver (in fine ounces)	2,767,798	*3,102,439	3,023,880
Zinc (in short tons)	40,996	*53,599	47,095
MONEY IN CIRCULATION—TREASURY DEPT.—			
As of July 31 (000's omitted)	$27,394,202	$27,492,909	$27,866,073
MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS—Month of August			
Industrials (125)	6.61	6.78	5.80
Railroads (25)	8.94	8.97	5.58
Utilities (25)	6.06	6.17	5.80
Banks (15)	4.51	4.70	4.54
Insurance (10)	3.26	3.35	3.49
Average yield (200)	6.50	6.64	5.70
NEW CAPITAL ISSUES IN GREAT BRITAIN—MIDLAND BANK, LTD.—Month of August	£2,221,000	£25,151,000	£30,557,000
U. S. GOVT. STATUTORY DEBT LIMITATION—As of August 31 (000's omitted):			
Total face amount that may be outstanding at any one time	$275,000,000	$275,000,000	$275,000,000
Outstanding—			
Total gross public debt	255,851,851	253,876,874	253,049,362
Guaranteed obligations not owned by the Treasury	27,191	25,512	51,445
Total gross public debt and guaranteed obligations	$255,879,042	$253,902,387	$253,100,807
Deduct—Other outstanding public debt obligations not subject to debt limitation	760,491	764,750	813,031
Grand total outstanding	$255,118,551	$253,137,636	$252,287,776
Balance face amount of obligation issuable under above authority	19,881,448	21,862,363	22,712,223
ZINC OXIDE (BUREAU OF MINES)—Month of July:			
Production (short tons)	9,645	9,199	Not Avail.
Shipments (short tons)	17,129	12,017	Not Avail.
Stocks at end of month (short tons)	19,794	27,278	Not Avail.

*Revised figure.

International Monetary Fund Analyzes International Payments Problem

(Continued from page 14)

niques. In any event, it becomes less and less possible to expect a further increase in production by itself to solve the major problems of internal and external balance. Where the emphasis in production has hitherto been directed primarily toward restoring consumption standards and expanding productive facilities, it should now in greater part be directed toward increasing exports. Countries must reduce their dependence on extraordinary external assistance by devoting more resources to the production of goods which can be offered at competitive prices in those markets where the means of paying for their imports can be earned.

The Inflation Problem

Inflation has created economic difficulties everywhere, but its effects have been most serious in Europe, the Middle East, and the Far East. In these regions, the consequences of inflation have been superimposed upon inadequate production and have, therefore, had a more serious effect in limiting exports and in increasing the demand for imports.

Though the fundamental forces of inflation had their origin in the war, the effects of inflation became more apparent after the war. The public, long deprived of the goods to which it had been accustomed, had expectations far beyond the capacity of war-depleted economies; and large-scale investments to restore and increase productive capacity further limited the supply of goods available for consumers. Public expenditure was expanded on an unprecedented scale, and in many countries the extension of credit to finance investment was much too generous.

The price structure did not at once reveal the effects of these inflationary forces. In many countries, of course, prices and costs rose rapidly. But elsewhere price movements were checked by price controls and rationing, and the real inflationary situation was often disguised by subsidies at a heavy cost to the budget. The effects on prices of the tendency toward excessive private and public expenditure could be temporarily repressed by such measures, but a difficult problem of accumulated spending power was left for the future.

In the past two years there has been progress in dealing with inflation in many countries, both in Europe and elsewhere. Increased production, the completion of the more urgent reconstruction tasks, and, in many instances, an import surplus have helped to establish more satisfactory relations between supply and demand. In the past year, prices have been relatively stable in many countries, and in some there has been a modest decline. Even where prices have continued to rise, this has probably been due more to the spending of the savings of the past than to new inflation. The widespread relaxation of rationing is a striking indication of the progress made.

Many countries are now in a relatively good position to prevent new inflation. The necessity of budgetary and credit policies which would restrain inflation has been increasingly recognized, and these policies have, at least in part, been put into effect. The rapid increases in the money supply so characteristic of previous years have been halted. Indeed, in some countries budgetary surpluses and the local currency proceeds from foreign aid have made possible a small reduction in the money supply. The pressure of excess liquidity on prices and costs is still apparent, however, so that the inflationary danger is by no means over.

The inflation problem in Western Europe cannot be regarded as finally solved as long as many countries are dependent on a large import surplus financed with foreign aid. Inflation may recur unless home consumption and investment relative to output are restrained as extraordinary foreign assistance is reduced. And it is still urgent to cast off the burden of high costs and prices, left by past inflation, which seriously weakens the competitive position of many countries in the markets of the less inflation surplus countries.

The Volume and Pattern of World Trade

The development of a satisfactory balance in international payments has presented much more serious difficulties. The volume of world trade in 1948 was probably somewhat greater than in 1938, though still smaller than in 1937; and much of it was dependent upon extraordinary financing. Even so, the volume of trade is still well below the reasonable requirements of a world with growing population and production. The restoration of the prewar volume and pattern of trade is not a good standard for measuring progress toward a balanced world economy. For the first years after the war, however, recovery may be provisionally measured in this way.

In 1948 the dollar value of the exports of all countries, although not the volume, was about 12% greated than in 1947 and 60% greater than in 1946. There has also been since 1947 a significant readjustment of the shares of different regions in the total. In 1938 the United States and Canada together supplied about 18%, and the Western Hemisphere as a whole about 27%, of total exports. By 1946 these shares had about doubled, being respectively 36 and 51 and these proportions were not significantly different in 1947. In 1948, however, as exports from other regions expanded, the share of the United States and Canada fell to just under 30% and that of the Western Hemisphere to 42%. United States exports were, indeed, $2.7 billion less in 1948 than in 1947. There was, of course, a movement in the opposite direction in the shares of other regions in world exports. By 1946 the share of Europe, including the United Kingdom, which had been 50% of the total in 1938, had fallen to 32%. In 1948 it recovered to 37%. The shares of the Middle East and the Far East together in these three years were 16, 10, and 13%. This broad classification, of course, does not reveal the wide differences in the recovery of individual countries.

As might be expected, changes in the distribution of world trade have been less striking on the side of imports. Of the total dollar value of imports in 1938, Europe accounted for about 57%. Since the war, with greatly reduced nontrade earnings and a smaller share of exports, Europe's proportion of world imports has fallen to around 46%. The share of world imports going to the Middle East and Far East has been about 14 to 15% of the total, slightly less than in 1938. Even these reduced shares could not have been maintained without aid from abroad and the use of declining exchange reserves.

Intra-European trade in 1948, though still only 69% of the 1938 volume, was 25% greater than in 1947. The volume of trade among the countries of Western Europe other than Germany and Austria was practically the same as before the war, but had not expanded to compensate for the gap left by the decline of trade with Germany and Austria. The trade of Eastern European countries with Western Europe, though greater in 1948 than in 1947, was 42% of the 1938 volume, and if Eastern European trade with Germany and Austria were excluded, it would still be only 63%. With their complementary production, the expansion of East-West European trade would strengthen the payments position of Europe as a whole.

For most sterling area countries, exports to other parts of the sterling area have expanded more rapidly than exports to the Western Hemisphere. In 1948 United Kingdom exports to the sterling area were larger both in volume (150% of 1938) and as a proportion of total exports than in either 1947 or 1938. The expansion of trade within the sterling area has helped reduce its dependence on imports from the Western Hemisphere; the need to provide increased exports within the sterling area has, however, increased the difficulty of expanding dollar exports. The reduced dependence in 1948 on imports from the Western Hemisphere was, moreover, only in part offset by increased supplies from within the sterling area. The volume of United Kingdom imports, for example, from the sterling area was lower in 1948 than in prewar years, though it accounted for 37% of total United Kingdom imports, contrasted with 31% in 1938.

One factor adversely affecting the volume of trade and its distribution has been the greatly reduced role of some important trading countries in world trade. Four years after the war, Germany and Japan are still unable to participate on a scale commensurate with their productive capacity. Their reintegration in the world economy would reopen accustomed sources of imports and markets for exports. Although the exports of some countries may be adversely affected by this competition, for the world as a whole there would be substantial gains from the further expansion of trade.

The growth in the volume of world trade since the end of the war has contributed to the moderate progress that has been made toward a better balance in international payments. The shifts in the regional distribution of trade have generally been along the lines necessary to solve the payments problem. Some of the changes in the pattern of trade in the past two years have been the result of desirable adjustments to world price-cost relations. In other cases, they have been the result of more rigid trade and payments restrictions and discriminations. The gradual disappearance of the sellers' market, particularly in the Western Hemisphere, now emphasizes the immediate importance of having such adjustments in world trade as will conform to competitive price and cost conditions and thus contribute to meeting the widespread payments difficulties.

The Payments Problem

The present international payments problem manifests itself in several forms. Some countries have large deficits financed through extraordinary assistance. In others an uncertain balance is maintained at a relatively low level of exports and imports. And there are still others with a great export capacity that have difficulty in making dollar payments, partly because of their excessive import demand, partly because some of their exports are not paid for in convertible currencies.

Although some countries still have to give special attention to financing deficits in currencies other than the U. S. dollar, the much more urgent problem is dollar payments. In 1947 the United States surplus which required financing (use of U. S. Government grants and credits, aid from UNRRA, financing by the Fund and the International Bank, and drawings on reserves) was $11.3 billion; in 1948 it was still about $6.7 billion. The surplus with Europe was $6.1 billion in 1947 and $3.4 billion in 1948; with the Middle East and Far East together, the surplus was $1.2 billion in 1947 and $800 million in 1948. The deficit of Latin America with the United States was substantially reduced in 1948, largely, however, because steps necessary to restrict imports were taken. For Canada, the U. S. dollar position was much easier in 1948 than in 1947, reserves being restored to a more normal level. Relatively large U. S. dollar payments were made by other regions to Canada and many Latin American countries. This is indicative of the wider scope of the U. S. dollar payments problem.

To the large postwar deficits sustained by the rest of the world on trade account with Western Hemisphere countries have been added considerable deficits on nontrade account, particularly with the United States. The foreign exchange receipts of Europe, particularly those which accrued in the form of income from foreign investments, have been seriously diminished. For most European countries, however, the loss of net receipts from nontrade account has been less significant than the increase in their imports relative to their exports. Except for the United Kingdom and, possibly, France, the deterioration in their payments position has been quantitatively larger on trade account than on nontrade account.

The dollar payments problem may be met in part by the diminution of the present extraordinary dependence on dollar imports. The greater part of the solution should, however, come from expanding dollar receipts. For a few countries there may still be a modest improvement in their service accounts, particularly from shipping and the tourist trade. But for most deficit countries, net payments on nontrade account must be expected to increase when debt obligations to the United States and Canada have to be met. Whatever the cause of the deterioration in balances of payments, trade adjustments must be the principal means of restoration for nearly all deficit countries.

Some countries may earn more dollars from their trade with regions outside the Western Hemisphere; but at best this could solve for a few countries only a small part of their dollar payments problem. In any event, for dollars to be earned in this way presupposes an expansion of United States imports from other regions. Even if the most liberal estimates are made for indirect dollar earnings in other regions, the gap left to be filled by the expansion of exports of the deficit countries to the Western Hemisphere will still be so large as to justify its being regarded as the crux of the dollar payments problem.

The Western Hemisphere now offers a larger market for imports than before the war. It has, however, become a much larger supplier of its own import requirements, and other regions have maintained only slightly more than half of their prewar shares in Western Hemisphere import markets. Of the nearly $5 billion of imports of Western Hemisphere countries in 1938, about 31% came from Europe and 14% from the Middle East and the Far East. Of their aggregate imports of $12 billion in 1946, only 14% came from Europe and 9% from the Middle East and the Far East. By 1948, of their aggregate imports of $18 billion, 16% came from Europe and 9% from the Middle East and the Far East. The principal aim of the deficit countries should be to increase their exports to the Western Hemisphere, and particularly to the United States. This would help them meet their own dollar payments problem. It would also help to meet the dollar payments problem of other countries in the Western Hemisphere that are compelled by the difficulty of getting supplies from other regions to depend on the United States for an undue proportion of their imports.

Any quantitative estimate of the increase in exports to the Western Hemisphere which will be necessary to meet the dollar payments problem of other regions would inevitably be rough and arbitrary. If Europe's 1948 deficit with the Western Hemisphere had had to be eliminated by increased exports to the Western Hemisphere, these exports would have had to be 2.8 times as large as they were. Similarly, if the 1948 deficit of the Middle East and Far East with the Western Hemisphere had had to be eliminated in the same way, their exports to the Western Hemisphere would have had to be about 1.6 times as large. Clearly, a quick expansion of exports to the Western Hemisphere on such a scale cannot be expected. There will, therefore, remain a residual that may have to be met by shifting or restricting imports.

In several Latin American countries, the current payments position still requires a cautious import policy, and it is important that their foreign exchange resources should be used in ways which will favor the development of their economies. It will be easier for them to increase their imports from countries outside the Western Hemisphere if at the same time they can expand their exports.

A satisfactory solution to the dollar payments problem will require further increases in the volume of world trade, in the proportion of total imports that go to the Western Hemisphere, and in the proportion of total exports supplied by other regions. The questions which are now of immediate importance are whether the pattern of trade is to be changed mainly by increasing the exports of the deficit countries or by reducing their imports from the surplus countries; and whether the necessary shifts are to be made on the basis of relative efficiency and economy or by restrictions and discriminations. It is in the general interest that international payments should be restored by the expansion of exports on the basis of relative prices and costs rather than by the contraction of imports through restrictions and discriminations.

The Role of the Deficit Countries

The primary responsibility for restoring the international payments position of the deficit countries rests with themselves. Until their domestic economies are adjusted to make more of their output available for export, so as to reduce their dependence on an excess of imports, their payments difficulties will continue. The starting point for any policy designed to improve their position is the gradual reduction of the present proportion of investment and consumption compared with their own output. The establishment of a better pattern of international payments is in part a problem of monetary policy, involving limitation of domestic demand, and especially of demand for investment, although, of course, investment which will improve the balance of payments should be continued. Inflation is not compatible with a satisfactory international balance of payments.

In their own and in the general interest, it would be preferable for the deficit countries to make the greater part of the adjustment which is necessary by expanding exports to the dollar region. The difficulties to be overcome in increasing such exports involve every aspect of production, marketing, and prices. The necessary increase will not be forthcoming unless home demand is limited by avoiding inflation, unless production is shifted to goods which offer prospects for export sales in the Western Hemisphere, and unless facilities are provided to market and service these goods. Above all, if exports

(Continued on page 38)

International Monetary Fund Analyzes International Payments Problem

(Continued from page 37)

are to be increased on a large enough scale, the goods will have to be offered at prices competitive with both domestic output and other imports in the markets of Western Hemisphere countries.

Any considerable increase of exports to the Western Hemisphere is likely to require the opening up of new demands. For exports to the United States, this means at least that the export prices of the deficit countries must be competitive with United States domestic prices, taking the tariff also into account. For exports to other Western Hemisphere countries, it means that the export prices of the deficit countries must be competitive with export prices from alternative sources of supply, and especially from the United States. Even had prices in the United States and in some other markets not declined recently, the maintenance of the present level of export prices and costs in the deficit countries would have made unlikely the necessary improvement in their competitive position. The shift from a sellers' market means that importing countries now have a wider range from which to select the commodities they wish and the source from which they draw their supplies. Further progress in reducing dollar deficits through larger exports is not likely unless export prices to Western Hemisphere markets are reduced.

While the United States wholesale price index for manufactures was about 175 (1937=100) in May, 1949, the indexes of export prices in dollars of the principal Western European countries exporting manufactured goods ranged around 210. The difficulty of exporting manufactures on an adequate scale to the United States is apparent from these figures. In other Western Hemisphere markets, where exports of European manufactures have to meet the competition of United States producers, relative export prices were perhaps less unfavorable to Europe, although not far different. Comparison of the costs of producing export goods in the Middle East and Far East with Western Hemisphere prices for raw materials also shows the great difficulty to be overcome in expanding exports from those regions.

These high export prices impose a serious handicap on deficit countries as they endeavor to expand their exports to the Western Hemisphere. There may be some scope for price reduction by a lowering of profit margins, although these possibilities are necessarily limited. The ultimate limit to price reduction is set by production costs. A reduction in costs through greater efficiency is at best a slow process, although the investment already undertaken and in prospect may offer hope in this direction. Many cost elements are notoriously rigid, and any general deflationary program for lowering costs and prices would encounter formidable resistance. Where a price reduction of the magnitude indicated above is necessary to expand exports, it would in many cases seem possible only through an adjustment in the exchange rate.

Countries with dollar payments difficulties are faced with the question whether an exchange rate adjustment can help solve their problem. The immediate purpose of an exchange adjustment is to increase substantially the foreign exchange receipts and particularly the dollar receipts from exports. If this is to be achieved, the exchange rate adjustment must make possible a reduction in their dollar export prices and the demand for their products must be such that this reduction will make an adequate addition to sales. In some cases, it would also be important that the increased profitability of exporting would encourage a larger production of exportable commodities.

For exchange adjustments to be successful, it is essential that the expected benefits should not be dissipated by an offsetting rise in local prices and costs. It must, therefore, have public support and be accompanied by appropriate fiscal and credit policies. If the public recognizes that an expansion of exports is necessary to maintain the flow of imports, and is prepared to accept higher import prices without insisting on corresponding changes in incomes, exchange adjustments in the deficit countries should involve only a relatively small rise in the cost of living. If, however, the public is insistent on offsetting by higher incomes even a moderate rise in the cost of living, the result will be the almost complete dissipation of the benefits of exchange adjustment. Even if an exchange adjustment is accomplished without a significant rise in prices and costs, it would be futile if the greater demand abroad were not matched by an equivalent supply of exports. Unless home demand is restrained, the expansion of exports, which alone can justify an exchange adjustment, will not be achieved.

Even when the parity of a country's currency does not seriously impair its total exports, the existence of inflation and inappropriate exchange rates elsewhere may hamper its efforts to direct a greater part of its exports to Western Hemisphere markets. The inflated prices in non-dollar markets are one of the major reasons why exporters in Europe, the Middle East, and the Far East do not offer their exports in larger part to Western Hemisphere countries. This difficulty can be overcome only as the general pattern of exchange rates is adjusted to relative prices and demand. Every country with a payments problem —and this includes both surplus and deficit countries—has a direct interest in the establishment of exchange rates in other countries that will encourage a pattern of trade conducive to a better balance in international payments.

The Role of the Surplus Countries

The restoration of international payments is not exclusively the responsibility of the deficit countries. It is no less important for the attainment of this objective that surplus countries should keep their economies operating at a high level and minimize the trade barriers that restrain imports. Indeed, the surplus countries have a positive interest of their own in finding a solution for the international payments problem. It would not be enough for them merely to refrain from action which might hamper the efforts of the deficit countries. Even the best conceived and the most vigorously executed plans for expanding the exports of other countries would necessarily fail if substantial increases in imports by surplus countries were now to be prevented by a large or persistent decline in business activity or by restrictive import policies.

The decline in the level of business activity in the United States from the extremely high postwar peak has added a new element to the payments problem. If this recession should prove to be no more than the end of the postwar restocking boom, it may help to establish a more satisfactory structure of prices on which to resume production and employment at a high level. However, even the decline that has already occurred is beginning to intensify the dollar payments problem and may threaten further restrictions and discriminations. If the decline in United States business activity, and hence in United States imports, should persist and intensify, it would be a serious setback to the deficit countries in their efforts to increase dollar earnings. It would necessitate a reduction of imports from the United States, which for many countries would be serious and for some critical, and would inevitably delay for an extended time the establishment of a world economy trading on a multilateral basis. Many countries might find it necessary to offset their reduced imports from the United States by discriminatory arrangements for larger imports from other areas.

The decrease in United States imports and the consequent decrease in incomes in other Western Hemisphere countries increase the difficulty of expanding exports to that region. For the deficit countries, this emphasizes the urgency for their taking bold measures to improve their dollar position. For the United States, the need is to avoid such a reduction in demand as will threaten an enduring and large contraction of world trade and necessitate over wide areas greater restrictions and new discriminations against imports from that country.

Apart from maintaining a high level of demand, the surplus countries can help expand exports by the deficit countries by lowering trade barriers and simplifying customs procedures. A reduction of tariffs, moreover, would have the advantage of reducing import prices without diminishing the exchange receipts which the deficit countries would receive for each unit of their exports. Much has already been done to reduce tariffs through cooperative action. But it is of great importance that no new tariff barriers should obstruct the efforts made by deficit countries to improve their payments position, and, wherever possible, further reductions in tariffs should be undertaken. If the payments position of deficit countries is likely to be improved by exchange depreciation, the improvement would be enhanced by a reduction of tariffs by surplus countries. While reduction of tariffs in other Western Hemisphere countries would not change the competitive position of deficit countries relative to the United States; it would help secure for them the maximum benefits from any reduction in their export prices. The process of tariff reduction, however, is always slow, and it will not be realistic to count on it as a solution to the immediate dollar problem.

In the establishment of a better balance in international payments, an important part must be played by international investment. An adequate flow of capital, particularly to under-developed countries, can have a generally beneficial effect in expanding world trade. It can help the deficit countries to increase their exports in the favorable environment of a larger volume of world trade. The assurance of fair treatment to foreign investors is a basic condition for the revival of international investment. The greatest encouragement to the resumption of a satisfactory flow of international capital would be an indication that the deficit countries themselves are taking effective steps to place their international payments in order.

Conclusion

In the years since the end of the war, much has been accomplished to increase production and trade. Despite this, dollar payments difficulties persist and many countries remain dependent on foreign aid. Even with this help, the payments position of some countries is so precarious that a moderate decline in their U. S. dollar receipts threatens their capacity to maintain essential imports. Under such conditions, even mild economic disturbances, at home or abroad, seem to call for drastic measures to meet an emergency situation.

Further measures of restriction and discrimination offer no permanently satisfactory solution to payments difficulties. Nevertheless, at a time like this it is natural that countries should think first of the effectiveness of measures to protect their critical dollar position. The deficit countries cannot be asked to forego even extreme measures which are necessary to prevent break-down in their dollar payments. But they can reasonably be asked at the same time to adopt positive measures which will increase their ability to meet their payments problems. Measures of restriction and discrimination, even if intended to be temporary, may foster the formation of exclusive economic blocs which might seriously threaten the strength and independence of the weaker economies, without assurance that they could offer their members a satisfactory way out of their difficulties.

A constructive solution to the payments problem requires the deficit countries to do all that they can to make more of their output available for export and to offer these exports at prices which will call forth much greater demand in dollar markets. The world is now tending to divide into high-price markets of countries dealing mainly in inconvertible currencies and low-price markets of countries dealing mainly in convertible currencies. The dollar payments problem will persist at least as long as these price differences continue. Prolonged dependence on restrictions and discrimination would be likely to divide the world economy into economic blocs, each with its own price structure, each tending increasingly to insulate itself from the rest of the world by the necessity of protecting its own inconvertible currency system by trade restrictions and exchange controls.

The task of increasing dollar exports cannot be delayed in the hope that it can be quickly completed by some extraordinary effort at the eleventh hour. The magnitude of the dollar payments problem requires that every constructive means should be used to meet it. For the creditor countries, this means maintaining high levels of national income, reducing the barriers to trade and facilitating the flow of international capital. For the deficit countries, it means the reduction of their export prices to a competitive level, in order to meet as much as possible of their payments problem through the expansion of trade on a multilateral basis.

Neither surplus nor deficit countries can afford to neglect to do their part to meet this problem. Even if creditor countries do less than they should, this would not relieve the deficit countries from the necessity of doing all that they can to relieve the situation. Their people will be the principal sufferers if they should find it necessary to impose further restrictions on essential imports. In their own interest they cannot afford to forego any suitable instrument, including any necessary exchange adjustment, that could expand their dollar exports and thus provide their people with imports. The risks and difficulties in adopting appropriate measures are undeniable; but with public understanding and support, the risks can be assumed, and the difficulties can be overcome. The deficit countries will then have done all in their power to deal with the payments problem.

Has Dollar Replaced Sterling As International Unit?

(Continued from page 15)

utilizing and developing the techniques that had been experimented with particularly during the depression period. For the first time the sterling area, which up to then had remained a loose, informal arrangement, was formalized and incorporated in a detailed system of exchange control regulation. We are still living in a period of generalized exchange control. The sterling area, now known as scheduled territories, is still a legal system of regulation and as a result the balance of payments difficulties of the United Kingdom are in fact the balance of payments difficulties of the sterling area as a whole. We are confronted, of course, with fundamental economic problems arising from our inability thus far to solve a so-called "dollar shortage." This whole problem is so much in the foreground of events at the moment that it need not be emphasized by me, but there are one or two aspects of the situation that I should like to mention.

Dollar Not Filling Role of Sterling

I said at the beginning that I thought the period since 1914 is an episode in the history of gold as an international monetary standard that has not yet been concluded. What I had in mind was that the history which I have suggested here begins with an efficiently working international monetary system with a single predominant international currency. In that old system there were many other currencies which performed international functions and there were many money markets such as Paris, Vienna and Berlin and New York which performed financial clearing and settlement functions for wide areas. They were, however, subordinate to the single financial center in London. During the intervening years the economic and financial power of the United States has become predominant in the world but the dollar does not really function as sterling used to do. I am driven to the conclusion that we shall not have an effective international monetary system as long as we keep on trying to make sterling still the great international currency for one major part of the world by means of artificial regulations and restrictions. I feel that we should not seek to break up the sterling area in so far as it represents a system of trade and credit and payments based on a voluntary community of interests as was the case before 1939. I am not quite sure how large such a sterling area would be if it were not for the formal legal arrangements which now bind these countries together as scheduled territories. The United Kingdom in the old days was the center of the sterling area because of its strength, experience and long leadership. Any such center must be in a position regularly and freely to replenish its reserves. It is not wise it seems to me to attempt to substitute for genuine economic power any set of artificial regulatory controls.

This general conclusion of mine does not mean that I would favor steps that might destroy the great area of free transferability of currencies now represented by the scheduled territories. It does mean that I believe we shall not have a satisfactory international monetary system until the dollar does in all essentials perform a role corresponding to that of

sterling before 1914. I do not see clearly the next steps in this process which has been in the making for so many years. In many respects the United States does not have as yet the peculiar capacities or the economic position that fitted the United Kingdom so well for its central role before 1914. But the alternative of two great currency areas in the world with various barriers between them seems to me to be one that offers little hope for a long-run solution of our difficulties.

Business Man's Bookshelf

Credits and Collections in Theory and Practice — Theodore N. Beckman and Robert Bartels—McGraw Hill Book Company, 330 West 42nd Street, New York 18, N. Y.—cloth—$6.00.

Our Renewable Resources Can Be Sustained — A Symposium — Chamber of Commerce of the United States of America, Washington 6, D. C.—paper—individual copies free; in lots of 10 or more, 10¢ each.

Regulations Relating to Foreign Funds Control in the United States—Third Supplement—Monetary and Economic Department, Bank for International Settlements, Basle, Switzerland—paper—Swiss francs 2.50 (plus postal charges).

Trends in Industrial Relations—Industrial Relations Section, California Institute of Technology, Pasadena 4, Calif.—paper—$1.00.

Effects of Higher Income Taxes on Electric Utility Enterprises, The—Herbert B. Dorau and J. Rhoads Foster—EcoStat Research, Inc., Ridgewood, N. J.—paper—$2.50.

South American Handbook, The — 1949 Edition — Annual guide book to countries, products, trade and resources of Cuba, Mexico, Central & South America—H. W. Wilson Company, 950 University Avenue, New York 52, N. Y.—cloth—$1.50.

Transmitting Information Through Management and Union Channels — Two Case Studies — Industrial Relations Section, Department of Economics and Social Institutions, Princeton University, Princeton, N. J. — paper, $2.50; cloth, $3.00.

Bogota Bond Exchange Offer Extended

Holders of the City and Municipality of Bogota gold bonds are being notified that the time to exchange their bonds for Republic of Colombia, 3% external sinking fund dollar bonds, due Oct. 1, 1970, has been extended to Oct. 1, 1950, from Oct. 1, 1949. Issues affected by this exchange offer are: City of Bogota (Republic of Colombia) 8% external sinking fund gold bonds of 1924, due Oct. 1, 1945; and Municipality of Bogota (Republic of Colombia) power and light consolidation loan of 1927 twenty-year external 6½% secured sinking fund gold bonds, due April 1, 1947.

With King Merritt Co.

(Special to THE FINANCIAL CHRONICLE)

ST. CLOUD, MINN.—Walter A. Schwede is with King Merritt & Co., Inc., 1211 First Street, North.

Toward Economic Stability

(Continued from page 16)

of Economic Advisers provides an organization for formulating such a stabilization policy.

Institutional Changes Conducing to Greater Stability

The impact of the knowledge and experience gained during the past 20 years has been dwelt upon at some length. This has been done because of the overwhelming importance of the changes that have taken place in the realm of ideas. Now certain institutional changes of those 20 years which may also portend greater economic stability will be discussed.

The first of these is the increase in the size of government. For better or for worse, we have emerged from the events of the past generation with a large government and one that is likely to remain large. Government is one industry which is not subject to the business fluctuations that affect all other segments of the economy. If anything, governmental activity is likely to grow in times of business depression and contract—or at least grow at a slower rate—in times of business prosperity. Therefore, big government provides a sort of anchor for the economy and its net influence is toward stability.

A second institutional factor has been the drastic change in the character of our tax system. Twenty years ago, our tax revenues were derived chiefly from excises, import duties, property taxes, and income taxes at very low rates. Today, a large proportion of our revenues is derived from personal income taxes, levied at steeply progressive rates, and from heavy corporate income taxes. Although there are wide differences of opinion on the effect of these tax changes, especially as to their influence on economic incentives, yet a strong case can be made for the view that their influence is in the direction of economic stability. The effect of graduated taxes at high rates is to restrict the flow of funds seeking investment and therefore to reduce the possibility that the flow of investable funds will exceed the available investment opportunities.

Third, the existence of a large public debt and the possible need for additional public borrowing in the event of a war have led to a cautious and moderate credit policy. Whereas in earlier booms, the monetary and credit authorities have tended to pursue overly repressive policies, today, facing the problem of maintaining the integrity of Federal finances, they have skillfully pursued a middle-of-the-road credit policy that has been neither strongly inflationary nor drastically deflationary. Without the large debt and the need for protecting the financial position of the Federal Government, the authorities would have been much more vulnerable to the many pressures for drastically tightening up credit and might have terminated the boom some time ago.

Fourth, the growth of the public debt of the United States has led to a great increase in the financial liquidity of the American public. As a whole, the American people hold relatively more liquid assets in the form of either bonds or cash than ever before. These liquid assets will provide a cushion of readily available purchasing power in the event of depression.

Fifth, by an unconscious evolutionary process, the United States has been drifting toward a compensatory fiscal policy. By that, is meant a policy under which the revenues and expenditures of the government are adjusted to compensate partially for changes in demand generated elsewhere in the economy. Under the traditional doctrine of budget-balancing in each fiscal year, tax rates would tend to be reduced in an inflationary period and to be increased in a deflationary period. Thus, governmental action would tend to pump more purchasing power into the economy in periods of inflation and less in periods of deflation. As a result the instability of the private economy would be enhanced or reinforced. Today, governmental policy, as expressed both by the executive and legislative branches and by public leaders, tends toward increased tax rates and reduced public spending in times of inflation, and toward reduced tax rates and increased public spending in times of deflation. With this policy, the effect of governmental fiscal operations is to compensate in part for changes in private economic activity. It is not suggested that we have reached the stage of a comprehensive and semi-automatic compensatory fiscal policy, but rather that the policies which actually tend to evolve resemble those of a full-blown compensatory fiscal policy.

Sixth, the effect of our social security system and of related programs is toward economic stability in that the receipts going into the trust funds are greater in periods of prosperity than in periods of depression and expenditures from the trust funds are greater in depression than in prosperity.

Seventh, the farm price supports will tend to bolster an important segment of purchasing power in the event of depression.

Eighth, the banking system is stronger and enjoys greater public confidence than it did during the 1920s. This is due to the fact that a large part of bank assets is in the form of government securities; moreover, deposits are partially protected by the FDIC.

Ninth, the rise of organized labor will mean stern resistance to wage cuts in the event of depression. This may also have the effect of bolstering purchasing power.

Bias Toward Inflation?

The experience of the great depression and the intellectual and institutional developments to which it gave rise have produced powerful supports for the economy which will become effective in the event of depression. There are some economists who argue that these supports are so strong that they have overcompensated for any likely depression and that the overriding danger is inflation. More specifically, it is argued that our fear of depression will lead us to adopt strongly inflationary policies whenever we are faced with the slightest downturn in business. As a result, recovery from depression will be rapid but an inflationary potential for the subsequent recovery will be generated. Thus, the economy will be consistently biased toward even higher prices.

Personally, I do not share this view. After the postwar demands for durable goods have been filled, we shall again face the prospect of periodic depression, and the supports we have built beneath our economy as a result of the experiences of the past 20 years are not necessarily excessive. On the other hand, this underpinning is considerable and important and will probably reduce the severity of future depressions.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

Earnings of the principal New York City banks for the third quarter of the current year are not expected to vary materially from those of the corresponding period of last year.

The statement on earnings and conditions will be issued during the coming week for the quarter ending Sept. 30. Although there are sure to be individual variations either way to this general expectation because of conditions within particular institutions, per share figures in most cases should be comparable with those of a year ago.

This relative stability has been attained despite several unfavorable developments so far this year. Of primary importance in this connection has been the decline in commercial loans. While there has been some tendency in recent weeks for commercial loans to exhibit a seasonal rise, since the first of the year banks in this area have lost a considerable amount of their loans.

There have been several factors which have helped to offset this loss of earnings. Through the two reductions in reserve requirement banks have gained in total earning assets. One reduction of two percentage points was made in May of this year and the other of two percentage points on a gradual basis during August.

Required reserves for the Central Reserve City banks in New York are now 22%. A year ago they were 24% up to Sept. 23 at which time they were raised to 26%, the highest level reached.

These additional earning assets have been put to work primarily through an increase in the government securities portfolio, which has been expanding for practically all of the banks. Also, the rate of interest received so far this year has been generally higher than for the same period of a year ago. True there has been a tendency in recent months for rates to soften, but the rate of earnings for the nine months on the different investments and loans should still compare favorably with 1948. There is also the fact that while some loan rates have been reduced, the prime rate which is of great importance is still maintained at 2%.

As a matter of interest and in order to obtain some idea of what might be expected in particular cases the following tabulation on indicated earnings so far this year compared with those of a year ago has been prepared and is presented below:

	Per Share Indicated Earnings						
	First Quarter		Second Quarter		Half Year		Third Quarter
	1949	1948	1949	1948	1949	1948	1948
	$	$	$	$	$	$	$
Bank of Manhattan	0.58	0.53	0.44	0.56	1.02	1.09	0.57
Bankers Trust	0.63	0.87	0.61	0.76	1.24	1.63	0.69
Central Hanover	1.50	1.50	1.50	1.50	3.00	3.00	1.50
Chase National	0.63	0.45	0.60	0.61	1.23	1.09	0.63
Chemical Bank & Trust	0.75	0.73	0.72	0.75	1.47	1.48	0.74
Commercial National	0.81	0.86	0.83	0.85	1.64	1.71	0.75
Corn Exchange	1.24	1.21	1.24	1.24	2.48	2.45	1.24
First National	17.00	20.52	20.39	21.59	37.39	42.11	18.68
Guaranty Trust	5.41	4.88	3.99	4.30	9.40	9.18	4.48
Irving Trust	0.30	0.30	0.29	0.30	0.59	0.60	0.30
Manufacturers Trust	1.16	1.19	1.17	1.18	2.33	2.37	1.08
*National City	0.69	0.75	0.68	0.80	1.37	1.55	0.74
New York Trust	1.55	1.56	1.52	1.58	3.07	3.14	1.69
Public National	1.09	1.14	1.14	1.19	2.23	2.33	1.23
U. S. Trust	10.15	8.96	10.75	9.90	20.90	18.86	10.50

*Includes indicated earnings of City Bank Farmers Trust Company.

In connection with the above figures it should be pointed out that some banks such as Central Hanover and Corn Exchange follow a policy of indicating a fixed rate of earnings during the first three quarters and in the fourth period making year-end adjustments to more accurately show earnings for the full year.

Bank of Manhattan in June issued 500,000 additional shares through rights to stockholders to obtain additional capital. The earnings for the second quarter have been adjusted to the larger number of shares outstanding. The other per share figures have not been adjusted. This fact should be kept in mind when comparisons of third quarter earnings are made.

Operating earnings when available may in certain instances be even more favorable than indicated earnings. For example in the six months period ended June 30 National City reported operating earnings of $1.62 a share compared with $1.57 in the same period of 1948. Such differences between operating and indicated earnings result from reserve adjustment policies and profits or losses on securities.

Maynard Simond Joins Charles Pfizer & Co.

F. Eberstadt, Chairman of the Board and President of F. Eberstadt & Co., Inc., announces that Maynard E. Simond has retired from the firm to devote full time to the affairs of Chas. Pfizer & Co., Inc., of which he has been an active director since 1942. Mr. Simond will become Chairman of the Executive Committee of the Pfizer Company.

With Luckhurst & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — William G. Ball is with Luckhurst & Co., Inc., of New York.

Harry Mitchell With First Guardian Secs.

Harry Mitchell has been elected Vice-President of The First Guardian Securities Corporation, 20 Pine Street, New York City. Mr. Mitchell was formerly with Ungerleider & Company and prior to that was associated with the New York Curb Exchange.

King Merritt Co. Adds

(Special to THE FINANCIAL CHRONICLE)

STILLWATER, MINN.—Charles W. Olson is with King Merritt & Co., Inc., 717 Sixth Avenue, South.

With Continental Securities

(Special to THE FINANCIAL CHRONICLE)

GRAND RAPIDS, MICH.—Russell D. Gould has joined the staff of Continental Securities Co., People's National Bank Bldg.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

● **Albion (Mich.) Gas Light Co.**
Sept. 20 (letter of notification) 150 shares ($100 par) preferred stock. Price, $104 per share. To be sold by Cecil A. Runyan, Vice-President of the company. **Underwriter**—First of Michigan Corp., Detroit.

● **Alpha Petroleum Co., Seattle, Wash.**
Sept. 6 (letter of ontification) 1,250 shares of capital stock, to be sold at $100 per share and 1,250 shares to be issued to Northwest Pipe Line Co. for an oil and gas lease. No underwriter. For drilling oil and gas wells. Office: 1503 Hoge Building, Seattle, Wash.

American Cladmetals Co., Carnegie, Pa.
Sept. 16 (letter of notification) 25,000 shares of common stock (par $1). Price, market ($1.25-$1.50 per share). To be sold on the over-the-counter market on behalf of C. R. Anthony, a stockholder. Statement withdrawn Sept. 23.

American Gas & Electric Co. (10/6)
Sept. 7 filed 498,081 shares ($10 par) common stock. **Offering**—To be offered for subscription by present stockholders of record Oct. 7 on basis of one new share for each nine shares held. Any unpurchased shares will be allotted among other stockholders desiring to acquire more than their original allotment. The offer expires Oct. 24. **Underwriters**—Underwriters will be invited to bid for any shares not taken by stockholders. Probable bidders: Union Securities Corp.; The First Boston Corp.; Dillon, Read & Co. Inc.; Blyth & Co., Inc. and Goldman, Sachs & Co. (jointly). **Proceeds**—For general funds, to be invested in subsid. operating companies, incl. Appalachian Electric Co. **Bids**—Bids for purchase of such of the stock as shall not be issuable pursuant to subscriptions will be received at company's office, 30 Church Street, New York, up to 11:30 a.m. (EST), Oct. 6.

American General Corp., New York
Sept. 8 filed 111,153 shares of $2 dividend series of cumulative convertible preferred stock ($1 par) and 206,422 shares (10c par) common stock. **Offering**—All of the $2 preferred and 170,500 shares of common are owned by Equity Corp. and will be offered in exchange for shares of $3 convertible preferred stock and 20-cent dividend preferred of Equity. **Underwriters**—None named, but a flat fee will be paid NASD members and securities exchanges assisting stockholders in tendering their securities for exchange.

● **American Graphic Arts Productions, Inc., Washington, D. C.**
Sept. 14 (letter of notification) 150 shares ($100 par) common (treasury) stock. Price, $50 each. No underwriter. To produce molds, engraving plates and plaques.

Arkansas Power & Light Co. (10/11)
Sept. 8 filed $8,700,000 first mortgage bonds, due 1979. **Underwriter**—Competitive bidding. Probable bidders: Halsey Stuart & Co. Inc.; The First Boston Corp.; White, Weld & Co.; Lehman Brothers and Stone & Webster Securities Corp. (jointly); Equitable Securities Corp. and Central Republic Co. (jointly); Union Securities Corp. **Proceeds**—For construction and general corporate purposes. Expected about Oct. 11.

Blackstone Valley Gas & Electric Co. (10/18)
Sept. 16 filed 35,000 shares of preferred stock, cumulative ($100 par). **Underwriter**—To be determined by competitive bidding. Probable bidders: Estabrook & Co. and Stone & Webster Securities Corp. (jointly); Kidder, Peabody & Co.; Salomon Bros. & Hutzler; W. C. Langley & Co.; Lehman Brothers; Harriman Ripley & Co. **Offering**—Of the total 1,430 shares will be reserved for common stockholders (other than Eastern Utilities Associates which owns 99% of common and which will waive its rights) to subscribe to at the rate of one for each common share held, and 12,942 shares will be offered to holders of outstanding 6% preferred stock in a share-for-share exchange, plus a cash adjustment and the balance will be publicly offered. **Proceeds**—To retire the remaining 6% preferred stock and for construction purposes. **Bids**—Bids will be received up to 11 a.m. (EST) Oct. 18, at 49 Federal Street, Boston, Mass.

Bradshaw Mining Co., Tonopah, Nev.
Oct. 8, 1948 (letter of notification) 1,500,000 shares (5¢ par) common stock. **Price**—20¢ per share. **Underwriter**—Batkin & Co., New York. To repair and renovate mine of company and to exercise option to purchase processing mill and move and erect such mill on the company's property and for working capital.

● **Brandt (Charles H.) & Co., Inc., Chicago**
Sept. 15 (letter of notification) 500 shares ($100 par) preferred stock. Price, par. No underwriter. To conduct general real estate and mortgage business. Office: 11108 So. Michigan Avenue, Chicago.

● **Builders Iron Foundry, Providence, R. I.**
Sept. 16 (letter of notification) 960 shares of common stock. Price, $15.50 each. To be sold by the Young Orchard Co., Providence. **Underwriter**—Brown, Lisle & Marshall.

● **Butler's Incorporated, Atlanta, Ga.**
Sept. 19 (letter of notification) 5,000 shares ($1 par) common stock. Price, $6 per share. Underwriter—Clement A. Evans & Co., Inc., Atlanta. **Proceeds**—To underwriter, who owns the shares.

Canam Mining Corp., Ltd., Vancouver, B. C.
Aug. 29 filed 1,000,000 shares of no par value common stock. **Price**—800,000 shares to be offered publicly at 80 cents per share; the remainder are registered as "bonus shares." **Underwriter**—Israel and Co., New York, N. Y. **Proceeds**—To develop mineral resources.

● **Carolina Telephone & Telegraph Co., Tarboro, North Carolina**
Sept. 28 filed 29,750 shares ($100 par) common capital stock. **Offering**—To be sold to stockholders at rate of two new shares for each five held at $100 per share. **Proceeds**—To reduce indebtedness resulting from construction and for general corporate purposes.

Colorado Fuel & Iron Corp., Denver, Colo.
Sept. 12 (letter of notification) 8,500 shares of common stock, to be sold at market (about $14.625) by Allen & Co., New York. Six New York and Chicago members of the New York Stock Exchange will aid in the sale, headed by A. L. Stamm & Co.

Colorado Oil & Gas Co., Alamosa, Colo. (10/10)
Aug. 30 (letter of notification) 250,000 shares ($1 par) common stock, of which 200,000 will be sold for company and 50,000 shares for N. O. Yeakley, a controlling stockholder, at $1 each. **Underwriter**—W. C. Hitchman Co., New York. To lease properties, drill wells, and for working capital.

● **Colorado Springs (Colo.) Baseball Club, Inc.**
Sept. 16 (letter of notification) 1,000 shares ($100 par) common stock. No underwriter. To operate the ball team.

● **Commercial Benefit Insurance Co., Phoenix, Arizona**
Sept. 21 (letter of notification) 500 shares ($100 par) common stock. No underwriter. To boost capitalization.

● **Commonwealth Fund, Boston**
Sept. 28 filed 2,500 shares of class A stock and 1,600 shares of class B stock. **Underwriter**—Trusteed Funds, Inc., Boston.

● **Commonwealth Investment Co., San Francisco**
Sept. 26 filed 2,500,000 shares of capital stock. **General Distributor**—North American Securities Co.

● **Composite Stock Fund, Inc., Spokane, Wash.**
Sept. 19 filed 200,000 shares capital stock (par $1). Price, market (about $12 per share). **Underwriter**—Murphey Favre Inc., Spokane, Wash. **Proceeds**—For investment.

Consolidated Caribou Silver Mines, Inc.
March 30 filed 376,250 shares (no par) common stock. **Price**—$2.50 per share. An additional 50,000 shares will be sold to the underwriter at $1 per share for investment. **Underwriter**—William L. Burton & Co., New York. **Proceeds**—To develop mining properties. Temporarily postponed.

Continental Copper & Steel Industries, Inc., New York
Sept. 15 (letter of notification) 6,666 shares 5% cumulative convertible preferred stock ($25 par). Price, $15 a share. To be sold by Mortimer S. Gordon, New York. **Underwriters**—Lee Higginson Corp. and P. W. Brooks & Co., Inc., New York.

Convertible Television, Inc., N. Y. C. (10/3-6)
Aug. 19 (letter of notification) 300,000 share of common stock (par 10 cents). **Price**—$1 per share. **Underwriter**—George J. Martin Co., New York City. **Proceeds**—To pay debt, for additional equipment, etc. and for working capital.

● **Delaware Fund, Inc., Wilmington, Del.**
Sept 19 filed 300,000 shares common stock (par $1). **Underwriter**—Delaware Fund Distributors. Price, market (about $14.07 per share). **Proceeds**—For investment.

Duquesne Light Co., Pittsburgh (10/18)
Sept. 16 filed $15,000,000 of first mortgage bonds, due 1979. **Underwriter**—To be determined by competitive bidding. Probable bidders: The First Boston Corp.; Kuhn, Loeb & Co.; Smith, Barney & Co.; A. C. Allyn & Co. (jointly); Halsey, Stuart & Co. Inc.; White, Weld & Co.; Harriman Ripley & Co.; Drexel & Co. and Equitable Securities Corp. (jointly); Glore, Forgan & Co. **Proceeds**—To repay bank loans for construction and for additional construction and general corporate purposes. Expected about Oct. 18.

● **E-I Mutual Association, West Orange, N. J.**
Sept. 19 (letter of notification) an unspecified number of shares of class B special stock. To be offered at $10 a share to employees of Thomas A. Edison, Inc. No underwriter. To be used in a redemption fund.

Emerson Radio & Phonograph Corp.
June 7 filed 235,000 shares of capital stock. **Underwriter**—F. Eberstadt & Co., Inc. The terms and price of the offering have not yet been determined, but the stock will not be sold below the market price on the New York Stock Exchange at the time of the offering. **Proceeds**—The shares to be sold are from holdings of Mrs. Benjamin Abrams, Mrs. Max Abrams and Mrs. Louis Abrams, wives of principal officers and directors of the company, and do not involve new financing by the company. Following sale of the shares, the Abrams family will own approximately 25% of the company's 800,000 shares of common stock.

● **Emery Air Freight Corp., New York**
Sept. 27 (letter of notification) 500 shares of common stock (par 20¢). Price, market (about $2.25). **Underwriter**—Reynolds & Co. Proceeds to selling stockholder.

● **Empire District Electric Co.**
Sept. 29 filed 100,000 shares of common stock. **Underwriters**—The First Boston Corp. and G. H. Walker & Co. **Proceeds**—To raise additional capital to assist company in completing construction program. Offering expected in October.

● **Frailey Industries, Inc., New York**
Sept. 27 (letter of notification) $50,000 5-year convertible income motors due Jan. 1, 1955. Price, par. Sales expansion, etc. No underwriter.

Gas Service Co., Kansas City, Mo. (10/4)
Aug. 12 filed $18,000,000 25-year first mortgage bonds due 1974. **Underwriters**—Competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Lehman Brothers; The First Boston Corp. **Proceeds**—To be used to repay $13,800,000 of 2½% to 3% notes, due 1950-56, and $1,000,000 of 2% notes due 1950, and the balance for the company's construction program. **Bids**—Bids for purchase of the bonds will be received up to 11 a.m. (EST) Oct. 4 at Room 1600, 70 Pine Street, New York.

General Reinsurance Corp., New York
Sept. 8 filed 185,210 shares ($10 par) capital stock, owned by American General Corp. **Offering**—These shares, together with 35,922 common shares of American General Corp., will be offered to holders of $3 dividend series, $2.50 dividend series and $2 dividend series convertible preferred stock of American General, on an exchange basis. **Underwriter**—None named, but a flat fee will be paid NASD members and securities exchanges assisting stockholders who tender their shares for exchange.

● **Gold Star Mining Co., Inc., Las Vegas, Nev.**
Sept. 16 (letter of notification) 490 shares ($100 par) common stock. Price, par. No underwriter. For building a placer recovery plant in Idaho.

● **Great Southwest Life Insurance Co., Phoenix, Arizona**
Sept. 19 (letter of notification) 150,000 shares ($1 par) capital stock. Price par. No underwriter. To complete capitalization. Office: P. O. Box 3405, Phoenix, Ariz.

Gulf Atlantic Transportation Co., Jacksonville, Florida
May 31 filed 620,000 shares of class A participating ($1 par) stock and 270,000 shares (25c par) common stock. **Offering**—135,000 shares of common will be offered for subscription by holders on the basis of one-for-two at 25 cents per share. **Underwriters**—Names by amendment, and may include John J. Bergen & Co. and A. M. Kidder & Co. Underwriters will buy the remaining 135,000 shares plus unsubscribed shares of the new common. Offering price of class A $5. **Proceeds**—To complete an ocean ferry, to finance dock and terminal facilities, to pay current obligations, and to provide working capital.

Hawaiian Electric Co., Ltd., Honolulu
June 21 filed 150,000 shares of series E cumulative ($20 par) preferred and 50,000 shares of ($20 par) common. **Offering**—Preferred will be offered to preferred holders at 1-for-3 rate and common will be offered to common stockholders at 1-for-9 rate. **Underwriters**—Dillon, Read & Co. Inc. and Dean Witter & Co. will buy unsubscribed preferred; unsubscribed common will be sold either at public auction or to the underwriters. **Proceeds**—To pay off short-term promissory notes and to carry merchandise inventories and receivables or to replenish treasury funds. The balance would be used for other corporate purposes or construction.

NEW ISSUE CALENDAR

September 30, 1949

Southwestern Associated Telephone Co. — Preferred

October 3, 1949

Chicago Milwaukee St. Paul & Pacific Noon (CST) — Equip. Trust Ctfs.
Convertible Television, Inc. — Common
York County Gas Co., 11:30 a.m. — Common

October 4, 1949

Gas Service Co., 11 a.m. (EST) — Bonds

October 5, 1949

Palestine Cotton Mills Ltd. — Common

October 6, 1949

American Gas & Electric Co. 11:30 a.m. (EST) — Common

October 10, 1949

Colorado Oil & Gas Co. — Common
Utah Power & Light Co., noon (EST) — Bonds

October 11, 1949

Arkansas Power & Light Co. — Bonds
Erie RR., noon (EST) — Equip. Trust Ctfs.

October 13, 1949

Kansas City Southern Ry. — Equip. Trust Ctfs.
Texas & Pacific Ry., noon (EST) — Equip. Trust Ctfs.

October 14, 1949

Northern Pacific Ry. — Equip. Trust Ctfs.

October 18, 1949

Blackstone Valley Gas & Electric Co. 11 a.m. (EST) — Preferred
Duquesne Light Co. — Bonds
New York Chicago & St. Louis RR. — Eqp. Tr. Ctfs.

October 19, 1949

Chesapeake & Ohio Ry. — Equip. Trust Ctfs.

October 25, 1949

Iowa-Illinois Gas & Electric Co. — Bonds

November 1, 1949

Interstate Power Co. — Common

● **Haydock Fund, Inc., Cincinnati, Ohio**
Sept. 26 filed 25,000 shares of capital stock. **Management**—Haydock & Co.

Heidelberg Sports Enterprises, Inc., Pittsburgh, Pa.
June 25 filed 5,000 shares of class B common stock (par $100). **Price**—$100 per share. **Underwriter**—None. **Proceeds**—$600,000 to be used for spectator grandstand and balance for related purposes.

● **Hollywood Broadcasting Co., Hollywood, Fla.**
Sept. 14 (letter of notification) 33 shares (no par) common and 66 shares ($100 par) preferred stock. To be sold, the common at $50 each and the preferred at $100 each to Miami-Hollywood Television Corp. by Jonas and Lenore Weiland, Miami Beach, Fla. No underwriter.

Hugoton Production Co., Kansas City
Sept. 8 filed 130,698 shares ($1 par) common stock. **Offering**—To be offered along with Panhandle Eastern Pipe Line Co. common in exchange for Missouri-Kansas Pipe Line Co.'s common and class B capital stock, at the rate of four shares of Panhandle common and two of Hugoton common for nine shares of Mokan common or 180 shares of Mokan class B stock. **Underwriter**—None.

Idaho Maryland Mines Corp., San Francisco, Calif.
Sept. 2 (letter of notification) 10,000 shares of common stock. **Price**—$2 each. To be sold by Errol MacBoyle. **Underwriter**—E. F. Hutton & Co., San Francisco.

Indianapolis Power & Light Co. (10/19)
Sept. 16 filed $40,000,000 of first mortgage bonds, due 1979. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; W. C. Langley & Co.; White, Weld & Co., and Shields & Co. (jointly); Lehman Brothers, Goldman, Sachs & Co. and The First Boston Corp. (jointly). Union Securities Corp. **Proceeds**—To redeem $40,000,000 of outstanding bonds, with other company funds added to pay the premiums. Expected about Oct. 19.

Insurance Co., of Florida, Miami, Fla.
Sept. 7 (letter of notification) 12,000 shares ($10 par) common stock. **Price**—$25 each. **Underwriter**—Atwill & Co., Miami Beach. To complete formation of a stock insurance company. Office, 139 N. E. 1st Street, Miami, Fla.

● **Insurance Securities, Inc., Oakland, Calif.**
Sept. 26 filed 1,970 units of $1,000 single payment plan, series U, and 3,046 units of 1,200 accumulative plan, series E, 10-year participating agreements of Trust Fund. **Underwriter**—Insurance Securities Inc.

● **Iowa-Illinois Gas & Electric Co. (10/25)**
Sept. 23 filed $10,000,000 of first mortgage bonds, due 1979. **Underwriter**—To be decided under competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Glore, Forgan & Co.; Harris, Hall & Co. (Inc.); Lehman Brothers; Harriman Ripley & Co.; Union Securities Corp., and White, Weld & Co. (jointly); Equitable Securities Corp.; The First Boston Corp.; Smith, Barney & Co. **Proceeds**—For electric and gas distribution facilities construction. Bids expected Oct. 25.

Keller Motors Corp., Huntsville, Ala.
May 10 filed 5,000,000 shares (3¢ par) common. **Underwriter**—Greenfield, Lax & Co., Inc., New York. **Price**—$1 per share. **Proceeds** — To purchase additional plant facilities, tools, dies, jigs, etc.; the balance for working capital.

Kittanning (Pa.) Telephone Co.
Sept. 14 (letter of notification) 3,000 shares of capital stock (par $25). Price, $45 per share. Stock will be offered Oct. 1 to stockholders of record Sept. 17 in ratio of one-for-eight. Rights expire Nov. 1, after which shares not subscribed for will be offered to employees and unsubscribed shares will be offered Nov. 8 to public in area in which company serves. Finance expansion program. No underwriting.

● **Kresge (S. S.) Co., Detroit, Mich.**
Sept. 16 (letter of notification) about 7,230 shares of common stock, now owned by the Estate of Anna E. Kresge, deceased. Price at market. **Underwriter**—Watling Lerchen & Co., Detroit.

Lawyers Title Insurance Corp., Richmond, Va.
Sept. 9 filed 55,000 shares ($10 par) common stock. **Offering**—To be offered at $10 each to holders of 110,000 outstanding common stock shares. **Underwriter**—None. **Proceeds**—To increase capital.

Lee Oil & Natural Gas Co., Baltimore, Md.
Sept. 12 (letter of notification) 596,000 shares common stock. Price 50c. **Underwriter** — Mitchell-Hoffman & Co., Inc., Baltimore. To acquire additional leases and for working capital.

Lucky Stores, Inc., Oakland, Calif.
June 27 filed 400,000 shares ($1.25 par) common stock. **Underwriter**—Names by amendment. **Proceeds**—Shares being offered on behalf of Blair Holdings Corp.

● **Magnet Cove Barium Corp., Houston, Texas**
Sept. 15 (letter of notification) 14,000 shares ($5 par) common stock. Price, $7 each. To be sold by Willard M. Johnson, President of the company. No underwriter. Office: 5001 Old Richmond Road, Houston, Texas.

● **Maine Public Service Co.**
Sept. 27 filed 30,000 shares (par $20) preferred stock and 25,000 shares common stock (par $10). **Underwriters**—Merril Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. **Offering**—Common stock will be offered for subscription by stockholders on a one-for-six ratio with provision for oversubscription. Unsubscribed shares and preferred will be taken by underwriters. **Proceeds**—For construction.

Maumee Oil Corp., Toledo, Ohio
May 12 filed 8,000 shares (no par) common, of which only about 2,614 shares will be offered publicly at $100 per share. No underwriter. For general working capital. SEC Sept. 23 issued a stop order suspending effectiveness of the registration statement.

Mercantile Acceptance Corp. of California
Sept. 8 (letter of notification) $100,000 4% 10-year debentures. **Underwriter**—Guardian Securities Corp., San Francisco. For general corporate purposes.

● **Mid-West Airlines, Inc., Municipal Airport, Des Moines**
Sept. 21 (letter of notification) 2,100 shares (no par) capital stock. Price, $100 per share. No underwriter. To set up a certificated air line.

● **Minute Maid Corp., New York**
Sept. 21 filed 120,000 shares of cumulative prior preference stock and 360,000 shares (10c par) common stock, to be reserved for conversion. Offering—Of the total prior preference shares, 116,440 will be reserved for subscription by holders of $2 preferred stock and common stock at the rate of one share for each preferred share held and one share for each five common shares held. At the same time, holders of $2 preferred stock are offered the chance to exchange these shares for six shares of common stock. **Underwriters**—Paine, Webber, Jackson & Curtis; The First Boston Corp., and White, Weld & Co. **Proceeds**—To increase working capital and reimburse the treasury for construction expenditures.

Nazareth (Pa.) Cement Co.
Sept. 7 (letter of notification) 3,059 shares of common stock. Price at market (about $12) to be sold by the Alden M. Young Co., Pine Orchard, Conn., through Day, Stoddard & Williams, New Haven, Conn.; Byllesby & Co., Philadelphia; Warren W. York & Co., Allentown, and H. B. Robeson, Nazareth.

New Jersey Power & Light Co.
June 9 filed 20,000 shares ($100 par) cumulative preferred stock. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Kidder, Peabody & Co.; Smith, Barney & Co.; W. C. Langley & Co.; Lehman Brothers. **Proceeds**—Will be applied to the payment of the cost of, or in reimbursement of payments made for, construction of additions and betterments subsequent to April 30, 1949. Sale deferred until later this year.

New York & Cuba Mail Steamship, New York
June 17 filed 190,125 shares of 5.6% cumulative preferred ($25 par) stock, which Atlantic Gulf and West Indies Steamship Lines is offering in exchange for its own preferred (5% non-cumulative $100 par) at the rate of one Atlantic share for three shares of Cuba Mail preferred plus $25 in cash. No underwriting.

New York Telecoin Corp., N. Y. City
Aug. 26 (letter of notification) 1,100,000 shares of class B stock. **Price**—At par (5¢) to Telecoin Corp. stockholders of record Sept. 6, 1949, on a pro rata share-for-share basis. Rights expire Oct. 6. **Underwriter**—None. **Proceeds**—To be added to working capital. **Office**—12 East 44th Street, New York, N. Y.

● **Northern Ohio Telphone Co., Bellevue, Ohio**
Sept. 23 filed 13,575 shares 4½% cumulative preferred stock ($100 par). **Underwriters**—Lawrence Cook & Co. and Cunningham & Co., Cleveland. Price, par. **Proceeds**—To reimburse company for funds spent to buy 22,574 shares of common capital stock of Star Telephone Co., Ashland, Ohio.

Orbisonia Water Co., Harrisburg, Pa.
Sept. 14 (letter of notification) $21,000 4¾% closed first mortgage serial bonds. Price, par. **Underwriter**—Warren W. York & Co., Inc., Harrisburg. To pay off outstanding $9,500 of mortgage bonds and improve properties.

Palestine Cotton Mills, Ltd. (10/5)
June 29 filed American certificates for 318,050 ordinary (common) shares, one (Israeli) pound par value, of which 300,000 shares will be publicly offered. **Underwriter**—The First Guardian Securities Corp., New York. **Price**—$4.25 each. **Proceeds**—To expand weaving facilities, etc.

● **Picturehaven, Inc., Los Angeles, Calif.**
Sept. 21 (letter of notification) 300 shares of 5% cumulative preferred stock. No underwriter. To develop facilities, build club, shops and other accommodations for stockholders.

Power Petroleum Ltd., Toronto Canada
April 25 filed 1,150,000 shares ($1 par) common of which 1,000,000 on behalf of company and 150,000 by New York Co., Ltd. **Price**—50 cents per share. **Underwriters**—S. G. Cranwell & Co., New York. **Proceeds**—For administration expenses and drilling. Statement effective June 27.

Public Service Co. of Indiana, Inc.
Sept. 12 filed 81,744 shares of common stock (no par). **Offering**—To be offered to stockholders of Southeastern Indiana Power Co. in exchange for 5½% cumulative preferred stock (par $100) and common stock (par $10) on basis of 4½ shares common Public Service for one preferred share Southeastern and 1½ shares Public Service for one common share Southeastern. **Underwriter**—None.

Resort Airlines, Inc.
July 27 (letter of notification) 54,000 shares ($1 par) common stock, of which 50,000 shares offered by company and 4,000 shares by George B. Wilkinson, Charlotte, N. C. **Underwriter**—Marx & Co., New York. **Price**—$5 per share. To be used for equipment and additional working capital in connection with the company's air cruise service. Expected early in October.

● **Rittenhouse Fund, Philadelphia**
Sept. 23 filed 10,000 participating units to be offered at the market. No underwriter. For investment.

● **Skiatron Corp., New York**
Sept. 21 (letter of notification) 275,000 shares (10¢ par) common stock. No underwriter. To build and demonstrate pilot models of various inventions, provide laboratory facilities, technical equipment and personnel. Office, 381 Fourth Avenue, New York, N. Y.

● **Sleepy Time Mattress, Inc., Las Vegas, Nev.**
Sept. 19 (letter of notification) 8,000 shares of 6% cumulative preferred stock ($5 par) and 2,000 shares ($5 par) common stock. To be offered in units of four preferred and one common share. No underwriter. For advertising, equipment, supplies, etc.

● **Southern Discount Co., Atlanta, Ga.**
Sept. 19 (letter of notification) $250,000 of 5% subordinated debentures, series E. Price, par plus interest. No underwriter. For working capital and to reduce bank loans. Office, 220 Healey Building, Atlanta, Ga.

Southern Fire & Casualty Co., Knoxville, Tenn.
Sept. 12 (letter of notification) 10,000 shares (no par) capital stock. Price, $8.50 each. **Underwriters**—J. C. Bradford & Co., Nashville; Elder & Co., Chattanooga; Strader, Taylor & Co., Lynchburg, Va., and Bullington-Schas & Co., Memphis. **Proceeds**—For expansion of insurance business.

Southwestern Associated Telephone Co. (9/30)
Sept. 14 filed 10,000 shares of cumulative preferred stock (no par). **Underwriters**—Paine, Webber, Jackson & Curtis; Stone & Webster Securities Corp., and Rauscher, Pierce & Co., Inc. **Proceeds**—To repay advances from General Telephone Corp., used in connection with construction program.

Sudore Gold Mines Ltd., Toronto, Canada
June 7 filed 375,000 shares of common stock. **Price**—$1 per share (U. S. funds). **Underwriting**—None. **Proceeds**—Funds will be applied to the purchase of equipment, road construction, exploration and development.

● **Technical Fund, Inc., San Francisco**
Sept. 23 filed 300,000 shares capital stock (par $1). **Underwriter**—Calvin, Mendenhall & Co., San Francisco. Price, market. Proceeds—For investment.

United Minerals Reserve Corp., Chicago
July 27 (letter of notification) 270,000 shares of common stock. **Price**—$1 each. **Underwriter**—Edward W. Ackley & Co., Boston. For development of mining properties.

Upper Peninsula Power Co.
Sept. 28 filed 154,000 shares of common stock (par $9). **Underwriters**—SEC has granted exemption from competitive bidding. An investment banking group managed by Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane, and Paine, Webber, Jackson & Curtis, may be underwriters. **Proceeds**—Will go to selling stockholders. Consolidated Electric & Gas Co. and Middle West Corp. will sell 120,000 shares and 34,000 shares, respectively.

Utah Power & Light Co. (10/10)
July 28 filed $5,000,000 first mortgage bonds, due 1979. **Underwriters**—Competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Salomon Bros. & Hutzler; Lehman Brothers and Bear, Stearns & Co. (jointly); Kidder, Peabody & Co.; Equitable Securities Corp.; Union Securities Corp. and Smith, Barney & Co. (jointly); Carl M. Loeb, Rhodes & Co., and E. H. Rollins & Sons (jointly). **Proceeds**—For construction purposes. **Bids**—Bids for purchase of bonds will be received up to noon (EST), Oct. 10, at Room 2033, 2 Rector Street, New York.

(Continued on page 42)

(Continued from page 41)

Western Arkansas Telephone Co., Russellville, Ark.
Aug. 16 (letter of notification) 1,000 shares of 6% cumulative non-participating preferred stock (par $100 per share). **Underwriter**—Lewis W. Cherry Co., Little Rock, Ark. **Proceeds**—To pay indebtedness for equipment and supplies.

Western Oil Fields, Inc., Denver, Colo.
May 19 (letter of notification) 800,000 shares of common capital. Price, 25¢ per share. **Underwriter**—John G. Perry & Co., Denver, Colo. For working capital and drilling of wells.

● **York (Pa.) County Gas Co.**
Sept. 23 (letter of notification) 6,000 shares of common stock (par $20). To be offered for subscription by stockholders of record Oct. 14 in ratio of 1/5th of a new share for each share held, at $50 per share. Rights expire Nov. 1. For improvements, extensions, etc. Not underwritten.

Prospective Offerings

Carolina Power & Light Co.
Sept. 17 reported company expects to raise another $20,000,000 through the sale in 1950 or 1951 of securities, principally bonds in addition to 30,000 shares of $5 preferred stock and 200,000 shares of common stock expected to be offered this month. Proceeds will be used to complete the company's scheduled $45,000,000 construction program.

Central Hudson Gas & Electric Corp.
Aug. 11 requested SEC authorization to issue and sell $6,000,000 of convertible debentures. Probable bidders: Union Securities Corp, Salomon Bros. & Hutzler and Spencer Trask & Co. (jointly); First Boston Corp.; Drexel & Co. and Stroud & Co. (jointly); White Weld & Co. and Stone & Webster Securities Corp. (jointly); W. C. Langley & Co.; Harriman, Ripley & Co.; Shields & Co. **Proceeds**—For retirement of short-term loans incurred for plant construction. Expected in November.

● **Central Maine Power Co.**
Sept. 22 company applied to the SEC for authority to sell three securities issues under competitive bidding, viz. $5,000 000 series S first and general mortgage bonds, due 1979; 30,000 shares ($100 par) dividend series preferred stock; and 200,548 shares ($10 par) common stock. The common stock shares will be subject to prior subscription rights held by holders of Central Maine's outstanding 6% preferred stock and common stock. New England Public Service Co. (parent), holder of 66.53% of the outstanding common stock, will waive its right to the new offering of common stock. Proceeds of the financing will be used for construction and other corporate purposes, including payment of bank loans. Probable bidders—Bonds: Halsey, Stuart & Co. Inc.; White, Weld & Co.; Blyth & Co. and Kidder, Peabody & Co. (jointly); Coffin & Burr and The First Boston Corp.; Otis & Co. Preferred: Salomon Bros. & Hutzler; Harriman Ripley & Co.; W. C. Langley & Co.; Blyth & Co., Inc., and Kidder, Peabody & Co. (jointly). Common: Blyth & Co. Inc., and Kidder, Peabody & Co. (jointly); Harriman Ripley & Co.

● **Chesapeake & Ohio Ry. (10/19)**
Sept. 27 reported company planning issuance of $3,600,000 equipment trust certificates, to mature semi-annually over 15 years. Probable bidders: Halsey, Stuart & Co. Inc.; Harris Hall & Co. (Inc.); Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly). Bids expected Oct. 19.

Chicago Mil. St. Paul & Pacific RR. (10/3)
The company will receive bids up to noon (CST), Oct. 3, for the purchase from it of $4,500,000 equipment trust certificates, series KK, to be dated Oct. 1, 1949, and to mature $150,000 semi-annually, April 1, 1950-Oct. 1, 1964. Probable bidders: Halsey, Stuart & Co. Inc.; Lee Higginson Corp.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Detroit Edison Co.**
Sept. 27 company announced that it is preparing for further financing of its construction program. Subject to authorization by the Michigan P. S. Commission, the financing will include an offering of additional stock (about 700,000 shares) to stockholders at par on the basis of one share for each 10 shares held. It is also planned to issue approximately $40,000,000 non-convertible debentures.
Probable bidders for debentures: Halsey, Stuart & Co. Inc.; Coffin & Burr, Inc. and Spencer Trask & Co. (jointly); The First Boston Corp.; Dillon, Read & Co. Inc.

Erie Railroad (10/11)
The company will receive bids up to noon (EST) Oct. 11 at its office, Cleveland, for the purchase from it of $4,300,000 equipment trust certificates, maturing in one-to ten years. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

Gulf States Utilities Co.
Sept. 27 reported company may sell next month $10,000,000 first mortgage bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler and Union Securities Corp. (jointly); Lehman Brothers; Merrill Lynch. Pierce, Fenner & Beane; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Stone & Webster Securities Corp.; The First Boston Corp.

● **Gulf States Utilities Co.**
Stockholders at an adjourned meeting Oct. 5 will vote on creating 60,000 shares of new preferred stock, $100 par value, the proceeds to be used to finance construction. Stock may be placed privately with insurance companies at par.

● **Illinois Central RR.**
Sept. 22, possible that road might sell $25,000,000 of new consolidated mortgage bonds and use the proceeds, along with $10,000,000 in cash, to call $35,000 000 of 40-year 4¾% debentures of 1966. Probable underwriters include Kuhn, Loeb & Co.

● **Illinois Power Co.**
Sept. 27 directors authorized issuance of 239,601 shares of common stock to finance construction. Stock would be offered to common stockholders in the ratio of one share for every eight held. The price and offering and record dates are to be determined later.

● **Interstate Power Co. (11/1)**
Sept. 26 company filed with SEC an application to sell 300,000 additional common shares. It is expected that the proposed offering will go into registration by Oct. 10 and that competitive bids for it will be taken about Nov. 1. Proceeds from the sale will be used to finance the utility's construction program.

● **Kansas City Southern Ry. (10/13)**
Sept. 27 reported company planning sale of $1,200,000 equipment trust certificates, to mature semi-annually over 15 years. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler. Bids expected Oct. 13.

● **New England Electric System**
Sept. 26 company advised the SEC that it plans the sale this year of 669 508 additional shares of common stock, and the sale in 1951 of $7,365,000 convertible preferred stock and $5.000,000 in debentures. An underwritten offer of the common would be made to present common stockholders on a one-for-ten ratio. Proceeds would be for construction.

New York, Chicago & St. Louis RR. (10/18)
Sept. 27 company expects to sell at competitive bidding $3,450,000 equipment trust certificates about Oct. 18. Probable bidders—Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co., and Lehman Brothers (jointly).

Northern Pacific Ry. (10/14)
Sept. 14 reported that company probably will be in the market about Oct. 14 with a relatively small offering of equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

Northern States Power Co. (Minn.)
Aug. 10 company requested SEC authorization to sell from 1,357,918 to 1,584,238 shares of its common stock, no par value. It is intended to make the initial pro rata offering to present common stockholders. Probable underwriters: Smith, Barney & Co.; White Weld & Co. and Glore, Forgan & Co. (jointly); Lehman Brothers and Riter & Co. (jointly). **Proceeds**—To be used to retire $15,000,000 of 2% promissory notes due on or before Dec. 30, 1949.

Pennsylvania Electric Co.
Sept. 15 company has asked SEC authority to issue and sell competitively $11,000,000 first mortgage bonds and 70,000 shares preferred stock. Probable bidders for preferred: Kuhn, Loeb & Co.; Kidder, Peabody & Co.; Smith, Barney & Co.; White, Weld & Co.; W. C. Langley & Co. For bonds: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; The First Boston Corp.; Equitable Securities Corp.

Public Service Electric & Gas Co.
Sept. 8 reported company expects to be in the market later this year with $25,000,000 new cumulative preferred stock (par $100) Company has applied to the New Jersey Board of Public Utility Commissioners for authority to make this offering. Probable bidders: Morgan Stanley & Co.; Union Securities Corp. and White, Weld & Co. (jointly).

● **Texas & Pacific Ry. (10/13)**
Company will receive bids up to noon (EST) Oct. 13 at Room 2216, 233 Broadway, New York, for the purchase from it of $2,300 000 equipment trust certificates, series G, dated Nov. 1, 1949, due $230,000 annually Nov. 1, 1950-59. Probable bidders: Halsey, Stuart & Co. Inc.; R. W. Pressprich & Co.; Kidder, Peabody & Co.; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.). Expected about Oct. 13-14.

● **Union Electric Co. of Missouri**
Sept. 26 company applied to the SEC for authorization to sell 150,000 shares of preferred stock on a competitive basis. The money will be used in a construction program calling for the expenditure of more than $145,000,000 before the end of 1953. Probable bidders: Dillon, Read & Co. Inc.; Blyth & Co., Inc.; White, Weld & Co. and Shields & Co. (jointly); The First Boston Corp.; Lehman Brothers.

● **Western Light & Telephone Co., Inc., Kansas City, Kansas**
Sept. 23 Arthur L. Mullergren, President, announced that company contemplates to offer approximately 15 000 shares of common stock, which will first be offered to the present common stockholders, and first mortgage bonds and debentures. Net proceeds will be used to finance construction program through 1950.

● **York County (Pa.) Gas Co. (10/3)**
Pennsylvania Gas & Electric Corp. is inviting bids for the purchase from it of 4,506 shares of common stock ($20 par) of York County Gas Co. Such bids will be received by Pennsylvania Gas & Electric Corp., at Room 803, 15 Exchange Place Jersey City, N. J., up to 11:30 a.m., on Oct. 3, 1949. Probable bidders: A. C. Allyn & Co.; Kidder, Peabody & Co.

News About Banks and Bankers

(Continued from page 16)

rooms for occupancy in the early part of 1950, according to an announcement by Edward N. Islin, Vice-President in charge of the bank's Newport News office.

* * *

The death of Charles F. Barrett, senior director of the **Fifth-Third Union Trust Co. of Cincinnati,** died on Sept. 13. Mr. Barrett, is is learned from the Cincinnati "Inquirer," was also retired Superintendent of the Cincinnati Railway Express Agency, with which he had been identified for more than 50 years, following in his father's footsteps.

* * *

A modernization program in the quarters occupied by the **Citizens National Bank & Trust Co. of Piqua, Ohio,** is now under way, and it is announced that the remodeling is to completed in approximately six months. Bank Building and Equipment Corp. of America has been engaged to do the work, and the bank announces that the new banking facilities will enable it to handle present business more promptly; also, it is stated, it will be possible to expand the banking services presently available and to improve those now in existence. The bank was establish in 1865. A. L. Flesh is President.

* * *

The election by the directors of Oscar A. Schultz as Vice-President of the **Marquette National Bank of Minneapolis,** has been announced by President Russell L. Stotesbery of the Marquette National. The Minneapolis "Star" of Sept. 15, in indicating this, added:

"Mr. Schultz will continue as President of the **Bank of Commerce & Savings in Duluth** until the first of the year, when his successor will be named. He has been an official of banks in Montrose, Mahtowa and Moose Lake, Minn., and was associated with Marquette bank during 1946 and 1947."

* * *

Harold S. Reeder, former Vice-President and director of the **First National Bank, Paris,** has been elected Vice-President of the **Mercantile National Bank** at Dallas, Milton Brown, President, announced Sept. 17, according to the Dallas "Times Herald" of Sept. 18.

* * *

E. C. Coombs, formerly Executive Vice-President of the old Telegraphers' National Bank, has been elected a Vice-President of **American Exchange National Bank,** according to the St. Louis "Globe Democrat" of Sept. 24.

* * *

The election of John F. Hallett as Vice-President of the **First National Bank in St. Louis** was announced on Sept. 13, the "Globe-Democrat" of that city reported. Mr. Hallett was formerly Assistant Vice-President and territorial officer of the **Chemical Bank & Trust Co. of New York;** earlier following his graduation from Yale University he was employed by the New York Trust Co. where he eventually held the post of Assistant Treasurer. He will assume his new duties with the St. Louis bank on Oct. 1.

* * *

Noel Rush, President of the **Lincoln Bank and Trust Company, Louisville, Ky.,** was elected a director of the **Louisville Branch of the Federal Reserve Bank of St. Louis** at a meeting of the board of the parent bank on Sept. 22.

Mr. Rush was chosen to fill the unexpired portion of the term of Wallace M. Davis, whose resignation as director of the branch becomes effective Oct. 1, 1949.

* * *

According to the Atlanta "Constitution" of Sept. 18, the **Bank of Atlanta, at Atlanta, Ga.,** has become a Citizens & Southern Bank in name as well as in fact. The paper quoted went on to say in part:

"With approval of the State Banking Department, it will be known hereafter as **The Citizens & Southern Bank of Atlanta,** according to a joint announcement yesterday by George R. McKinnon, President of the Citidens & Southern Bank of Atlanta, and Mills B. Lane, Jr., President of the **Citizens & Southern National Bank,** with which it is affiliated."

* * *

Allen N. Stainback, a former Vice-President and Trust Officer of the **Alamo National Bank of San Antonio, Texas,** was appointed Senior Assistant Trust Officer of the **Barnett National Bank of Jacksonville, Fla.,** at the Sept. 13 meeting of the directors. Announcement of this was made by W. R. McQuaid, President of the Barnett National, says the "Florida Times Union," which likewise stated:

"His (Mr. Stainback's) initial experience in the trust field was gained at the Bank of the Manhattan Company in New York City. From 1931 until early in 1948 he was Trust Officer of the County Trust Company of White Plains, N. Y., serving also as Vice-President from 1936. During this period he studied trust administration at the American Bankers Association's Graduate School of Banking at Rutgers University.

* * *

Announcement of the election of Vernon Wooten as Vice-President of the **Trust Co. of Georgia, at Atlanta,** was made by President Marshall B. Hall on Sept. 13. From the Atlanta "Constitution" it is learned that Mr. Wooten, who has been associated with the company for 25 years, has served in various capacities, and prior to his present promotion had been Assistant Vice-President for seven years. He will be in charge of the new West Peachtree office of the trust company which will be opened in October.

The Cult of Getting Something For Nothing

(Continued from page 8)

to 26 days for which they were getting full pay for giving no work in return.

Reasons for Unemployment

It is true that we now have unemployment and high prices; but this is largely due not so much to high wages as to the attempt of people to get pay for time when they do not work. Main Street today needs a Commission which will cut the fraud out of labor union practices, as Wall Street in 1929 needed a Commission to cut the fraud out of bankers' practices. Certainly, some labor leaders are trying to get their unions "something for nothing."

There, of course, are other reasons for unemployment and high prices. Among these I mention unnecessary government expenditures, huge business-killing taxes, the false attitude of Congress as to depreciation charges, the double taxation on dividends, and the handicap of the small businessman to get a start and compete with big business. Remember this: If there was a tax of 100% on what we save, we would save nothing. Conversely, the lower the taxes, the harder we work and the more we save to invest in new industries to make more jobs.

More Jobs Require More Capital

The discouragement of Wall Street is hurting employment. Babies are being born at the rate of about seven per minute. Our population, after deducting all deaths, is increasing at 200,000 per month. To take care of these people, we must have more factories, more stores and more business. Today it requires an investment of $6,000 in land, buildings, machinery and working capital to provide a job for one more man. This means that the work of Wall Street should now be encouraged by the Truman Administration.

Every reader of this column should, at the right time, buy good stocks and help provide the money for more machinery and for more jobs. This could be done by Congress eliminating the present double taxation on dividends. It also would help to have any income you get from dividends under $1,000 to be exempt from taxation. Those who love their work and save money usually become employers of others; but those who want short hours and "modern living" will always work for others and, at times, suffer from unemployment. Moral: "Live over your store or business and keep it open from 7:00 a.m. until 9:00 p.m."

Canadian Inv. Dealers Sponsor Lectures

TORONTO, ONT., CANADA—Ten Wednesday night lectures on "How to Invest Your Money" will be given at the University of Toronto beginning Oct. 12. The course is being offered in cooperation with The Education Committee of The Investment Dealers' Association of Canada. Demand for advice on wise investment procedure has increased sharply since the war. Investment dealers report there are now 837,000 Canadians with a bank balance of more than a $1,000 each—about four times as many as in 1939.

Since women control a large percentage of these funds, the University course will be on a coeducational basis. There will be no admission requirements other than a small fee to cover the cost of printing and no examinations.

The course will cover such points as how to buy and sell securities, both listed and unlisted; how the stock market functions; the difference between bonds, preferred stock and common stocks and how the investor may choose between them with the greatest opportunity for profit and security.

The lecturer, E. C. V. Arnold, Toronto Investment Counsel, will explain in simple terms how the investor may understand a balance sheet or an income account. One lecture will deal with the effect of changes in business prosperity on stock market prices and the possibility of using these changes for buying cheap and selling dear. Students will learn something of the dangers to be avoided in speculation and will be instructed on methods for choosing a well-balanced group of securities.

The lectures will be given in Room 102 of the University's new Mechanical Building. Application should be made to the Department of Extension at the University.

Our Reporter's Report

The new issue market, at least so far as corporate bonds are concerned, shows little immediate indication of getting off the "dead-center" position it has occupied since before Labor Day brought the summer season officially to a close.

True there has been some reawakening in the equity section of the money market and things appear to be looking up where preferred and common stocks are concerned. But despite the decidedly strong undertone apparent in the seasoned bond market, and particularly among issues sold in recent months, corporate debt financing has been slow to revive.

It may be that corporate finance officers are inclined to "wait and see" what further action the Federal Reserve Board and the Treasury may take in the direction of credit-easing before entering the market for new capital or possible refinancing.

Yet it hardly seems likely that anything further these agencies might do would go far toward cutting the cost of corporate borrowing.

Certainly credit is available in almost unlimited quantity and money rates reflect quite adequately this plethora of funds, as witness the substantial premiums ruling for many bond issues and senior stock offerings brought out last spring and summer.

But underwriting bankers do not find themselves taxed even modestly by such new business as developed since the turn of the month.

Revenue Bonds Sell Fast

The week was enlivened, of course, by yesterday's marketing of $77,500,000 of Pennsylvania Turnpike Commission revenue bonds, maturing in June, 1988, carrying a 2.90% coupon and floated at a net cost of 2.986% to maturity.

Priced at par and accrued interest, the bonds encountered an aggressive demand which made for quick sale and lifted the issue to a premium of ½ point on the bid side.

Meanwhile a court ruling sought by the New Jersey Turnpike Authority cleared the atmosphere legally for that agency's projected undertaking which ultimately will involve the sale of some $200,000,000 bonds for a cross-state high-speed toll road.

Awaits Board's Ruling

Getting out from under the requirements of the Public Utility Holding Company Act probably relieves a utility operating company of a great deal of its troubles. But it does not make them footlose and fancy-free by any means.

Public Service Electric & Gas Co., for example, no longer is bound by the federal statute that is so far as seeking approval of the Securities and Exchange Commission for exemption of a proposed bond issue from competitive bidding.

However, the company must obtain the consent of the N. J. Board of Public Utility Commissioners before it can seek to negotiate for the sale of $25,000,000 of proposed new preferred stock to bankers. It hopes the board's decision on its request will be in hand in the near future.

Tennessee Gas Transmission

Investors took up Tennessee Gas Transmission Co.'s $22,000,000 of preferred and common stock in a manner which indicates that there is a good demand around for equities that come up to specifications of the potential buyers.

Bankers brought out 400,000 shares of new common at 30¼ and 100,000 shares of 4.65% cumulative preferred stock priced at $103.50. The common stock was quickly disposed of and the preferred moved out rapidly.

But at midweek it was reported in dealer circles that small amounts of the preferred could still be obtained, by shopping, at less ¼.

Slow Week Ahead

The forthcoming week holds little promise of any real pickup in new financing activities by corporations. There are two offerings in prospect, one involving $4,500,000 of equipment trust certificates for the Chicago, Milwaukee, St. Paul and Pacific Railway, due up for bids on Monday.

The other prospective issue is $18,000,000 of new first mortgage bonds for the Gas Service Co. of Kansas City for which bids will be opened on Tuesday.

The latter undertaking promises to be the center of spirited competition with six groups reported in the running. The original term specified for the bonds, 25 years, has been cut to 20 years, with a 2% annual sinking fund.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—After the dust has settled for over 10 days on the American-British-Canadian monetary conference and sterling devaluation, it has been possible, by checking various sources around this de facto world capital, to get what seems to be a reliable evaluation of the significance of that conference and dispel a little of the confusion of a week ago.

The significance of this conference is reported to be far greater in its long-run than in its short-run prospects.

Short-run, the high sounding resolves of the Joint Communique actually contributed little to narrowing the dollar gap of the sterling area. The provision for employment of ECA dollars for "offshore" purchases, as for the purchase by Britain of Canadian wheat, is the only important, immediate, tangible move to narrow the dollar gap.

Hence there is an element of truth, it is said, to the interpretation that the grand international conference with all its panoply and attention, did have the effect of providing something of a theatrical stage for the devaluation, to emphasize its importance and necessity. In this connection the seemingly vague general promises of the United States to go partners with Britain on economic affairs, helped to make the devaluation a little less acrid to the British taste. To that extent it may help ease the sales problem of the Laborite Government.

So the problem of narrowing the dollar gap is still the problem of the British Government. There is no assurance that the steps Britain has taken and will take or it is hoped she will take will provide the desired sterling stability.

On the other hand, there is considerable hope that they will. It is believed that the British decision to go all the way down to $2.80 for the new value of the pound, impressed officials here. Such a sharp drop took courage. "It was doing the job right." If the British do other things, such as unblocking foreign balances in sterling, there is every reason to hope not only that the short-run problem will be met (British organized labor not rebelling too much) but that Britain's foreign balances might increase in a flow of capital to London.

* * *

Long-run, it is suggested, the ABC conference was of considerable significance.

On the long-run side, what the U. S. Government pledged itself to do was to prepare over the course of the years to take a large increase in merchandise imports from Britain, insofar as lowering import barriers would facilitate this. At the same time the U. S. agreed to facilitate the export of investment capital. Both these commitments were a promise to the British "to act as a creditor nation."

It is not so much in specific sentences and paragraphs of the Joint Communique that this appeared, as in the whole weight of that document. The entire document, it was pointed out, moved in that direction.

Hence in the next few years this government will not only enter into negotiations with the United Kingdom for still lower duties, but will remove administrative impediments to the import of goods, by administrative action where that is sufficient, or by legislation, if that is necessary.

It is not anticipated that a new trade agreements act conference with Britain in the near future is in the works. No import duty reductions by agreement are pending, beyond the 10-country program which has been anticipated any day. It is impractical politically for the Truman Administration, in advance of the 1950 elections, to pull such a spectacular stunt as to offer further important trade concessions on British merchandise. Likewise it is probably impractical for the British Government, which is waiting to set the date for the British general elections, to engage in such a large undertaking.

This, hence, leaves the implication that if the Truman Administration retains a majority in Congress as a result of the '50 elections, and the Laborites are returned to power in Britain, then the two governments will settle down to make a rather large bargain in the way of reduced trade barriers.

It is not beyond the realm of possibility that the Administration may give the public some clear indication of such an intention prior to the 1950 election, in order that the issue may be decided in that election. On the other hand, the Republicans on their own initiative may raise the tariff to a paramount election issue and perhaps make unnecessary any initiative by the Administration.

* * *

Another commitment which the U. S. made was to encourage investments. The White House's determination to get the proposed Point IV investment guarantee enacted, unexpectedly brought that proposition back to life. In both House and Senate Banking Committees, initial sentiment was highly critical toward this plan, which involved proposed legislation to give the Export-Import Bank authority, without limits or conditions of any kind, to guarantee in any way it chose, U. S. private business investments in "backward areas." Many of these areas are still under the control of the British Empire.

In the Senate Banking Committee meeting a week ago, Senator Scott Lucas, the Majority Leader, unexpectedly appeared to ask the committee to pass the investment guarantee. The committee had not previously planned to take up that bill a week ago or this year at all. Very surprisingly the committee immediately reported out the bill unanimously.

Nevertheless, it is not expected, according to Chairman Maybank, that the bill will be passed this year. A delay until next year is believed agreeable to the Administration. The Administration has not itself decided the details of the terms, premium charges, interest rates, types of contracts, etc., it wants to employ under this investment guarantee. So next year will be time for the legislation, but the Administration wanted to show Congressional support.

Notwithstanding this, however, the Administration is reported to have some rather definite ideas of projects in Africa and elsewhere which could be financed with private U. S. capital, and one day not too many months hence, may let private capital know what these projects are.

BUSINESS BUZZ

"There are times, gentlemen, when I think that some of us have a tendency to deviate a trifle from the business at hand!"

* * *

In return for this promise to remove impediments to British merchandise and encourage the investment of U. S. money, the Administration is said to feel that it has obtained a long-run benefit from Britain. The Joint Communique by the weight of its language, also appears to commit the British to the firm return to multilateralism in trade. Hence, the British are expected in the end to veer away from the preclusive trading, bilateral deals of the type typified by the Anglo-Argentine agreement. It is possible that in the course of the next few months, there may be one or two more of these special two-way trades, projects started long before the ABC meetings were scheduled. But—

"Britain has been put back on the Bretton Woods track."

* * *

Finally, as to details, there is uniform agreement among official observers that the primary effect which devaluation will have in narrowing Britain's dollar gap is in reducing U. S. merchandise exports to the United Kingdom. Devaluation has an immediate and almost arithmetic effect upon the British importer of dollar goods. In most cases he must put up 30% more in pounds to buy the American machine tool. On the other hand, cheaper sterling will not necessarily cheapen or necessarily make more attractive to American buyers, the merchandise the British are selling. Undoubtedly luxury shipments — textiles, china and leather, for example, will increase in volume. About motor cars and heavy goods, there is considerable doubt. The luxury items may make news but in dollar totals of trade, will not be greatly significant, it is said.

* * *

Every once in a while this town puts on a rare farce, albeit a subtle one, but none the less a very funny one.

One such farce occurred at the end of last week when the monetary subcommittee of the Congressional Joint Committee on the Economic Report, staged a hearing especially to let a bunch of professors unveil a report sonorously entitled, "Federal Expenditures and Revenue Policy for Economic Stability," and a subsidiary report entitled, "Fiscal Policy in the Near Future."

Chairman of the monetary subcommittee is Senator Paul Douglas of Illinois, himself a fugitive from a professor's chair, and obviously the only JEC subcommittee member who appeared to be impressed by the professors, even though what they said in the rarified generalities of the economist was what Professor Truman has all but claimed he is doing.

What Doctor Simeon E. Leland of Northwestern University told the subcommittee was a remarkable achievement, was that 12 or 13 professors actually got together and agreed on a report. The report was authorized by the professors under the auspices of the National Planning Association. The report boiled down to this: In boom times the government should raise taxes and spend less. In times of recession the government should spend more and tax less. Three professors were on hand to explain this profound document.

Senators asked how would you determine when a depression was coming and when a boom. That occasioned no end of confusion among the professors. Finally one of them said he supposed you would use some sort of an index.

Not satisfied, a senator then asked what a senator should do now if he had the powers the professors recommended. Should he vote legislation as though a boom were coming or as though there was a depression. The embarrassment, the confusion of the professors, was even more intense.

Senators explained that matters like raising taxes and cutting expenditures were sometimes political questions and difficult to operate in the realm of pure economic theory. The professors said yes, they understood that there were some real, practical problems. However, one of the professors came up with an inspiration. By enacting the Legislative Reorganization Act with its provision for the "Legislative Budget" the Congress already had taken the initial step. It wouldn't be too much trouble, he thought, switching into either the "formula flexibility" plan or the "automatic flexibility" plan for directing revenues and expenditures so as to maintain economic stability forever and yea 10 presidential elections hence.

Of course the professors probably did not know that the Legislative Reorganization Act, in all its material essentials including the "Legislative Budget" (this act itself was largely the inspiration of other professors) has been quietly buried and Congress means that it shall be neither mourned nor remembered.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)